

ANDERSON COUNTY WATER AUTHORITY
Clinton, Tennessee

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

For the Years Ended

June 30, 2017 and 2016

PREPARED BY:

Larry Clowers, General Manager

ANDERSON COUNTY WATER AUTHORITY

Clinton, Tennessee

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INTRODUCTORY SECTION



P. O. Box 70

Clinton, Tennessee 37717

Anderson County Water Authority

(865) 457-3033

November 8, 2017

Board of Directors of
Anderson County Water Authority
Clinton, Tennessee

State law and the Comptroller of the Treasury, State of Tennessee, requires that every political subdivision or municipal corporation publish within six months of the close of each fiscal year-end, a complete set of audited financial statements. This Comprehensive Annual Financial Report (CAFR) of the Anderson County Water Authority (the "Authority") is published to fulfill these requirements for the fiscal years ended June 30, 2017 and 2016.

Internal Controls

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of material misstatements.

Independent Audit

Parsons & Wright CPA's have issued an unmodified ("clean") report on the Authority's financial statements for the years ended June 30, 2017 and 2016, respectively. As stated in the independent auditor's report, the audits were conducted in accordance with U.S. generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. The independent auditor's report is located at the front of the financial section of this report on pages one and two.

Management's Discussion and Analysis (MD&A)

Generally Accepted Accounting Principles (GAAP) requires that management provide a narrative introduction, overview, and analysis to accompany the financial statements in the form of MD&A. The Letter of Transmittal is designed to complement the MD&A and should be read in conjunction with it. The Authority's MD&A can be found immediately following the independent auditor's report.

Profile of the Authority

The Authority was created by the Tennessee General Assembly Private Act No. 40 and approved by the Anderson County Commission on July 16, 2007. The Authority started organizing activities on July 16, 2007, and began significant operations on January 1, 2009 and provides water and wastewater collection services to the unincorporated areas of Anderson County, Tennessee. The purpose of the Authority is to "acquire, construct, improve, extend, operate, and maintain a water system." The Authority's primary source of water is drawn from the Clinch River.

The Authority is governed by a Board of Directors composed of five citizens who reside in, or are customers, of the Authority. Board members are nominated by the Anderson County Mayor for a term of four years, subject to confirmation by the Anderson County Commission.

The Authority's primary capital assets consists of two water treatment plants, one office building, one wastewater treatment plant, and twelve water reservoir tanks.

The Authority receives no ongoing financial support from Anderson County, Tennessee and has no taxing authority. The Authority's revenues are derived from water and wastewater charges based upon metered water consumption of customers. The water and wastewater rates are established by the Board of Directors.

Budgeting

The Authority adopts flexible annual operating and capital budgets. Budgets are adopted on a basis consistent with GAAP. The current operating budget details the Authority's plans to earn and expend funds for charges incurred for operation, maintenance, certain interest and general functions, and other charges for the fiscal year. The capital budget details the plan to receive and expend cash basis capital contributions, grants, borrowings and certain revenues for capital projects. The budgets are projections and are not legally binding.

Local Economy

The Authority is located within the Knoxville Metropolitan Statistical Area (MSA) which includes Knox, Blount, Anderson, Sevier, Loudon and Union Counties. The Knoxville MSA is also the trade center for several counties in East Tennessee, and parts of Kentucky, Virginia and North Carolina.

For June 2017, the unemployment rates according to the U.S. Bureau of Labor Statistics for Anderson County, State of Tennessee, and the Nation were 4.6%, 3.6% and 4.4%, respectively.

Per capita income for calendar year-end 2015 for Anderson County, State of Tennessee, and the Nation was \$38,637, \$42,094 and \$48,112, respectively.

The Knoxville MSA has several large employers including several U.S. Department of Energy contractors, Alcoa Aluminum, several hospitals, Clayton Homes, HGTV cable network, Denso and several automobile parts manufacturers, the University of Tennessee, and several regional shopping malls and centers.

Long-Term Financial Planning

The Authority has projected a 1 to 2% annual increase in the number of customers over the next several years. The Authority is planning several capital improvements including upgrading water and sewer lines, pump stations, and building additional water lines to provide new water and wastewater services to various areas.

The financing of the Authority's capital improvements is by internally generated cash flows and the issuance of long-term debt.

Relevant Financial Policies

The combination of continued customer growth, moderate rate increases and the issuance of long-term debt are projected to provide the Authority with adequate resources to provide for the delivery of water and wastewater services and for capital improvements.

Major Initiatives

During FY 2017, the Authority completed the construction of a 12 mile forced wastewater main line that cost \$2,982,645 and connects all of the Authority's sewer customers directly to the Clinton Utilities Board wastewater treatment plant which will reduce monthly treatment costs by 50%. This project was financed by a \$2,800,000, 20 year low interest rate loan, that includes a 20% principal debt forgiveness, with the State of Tennessee Revolving Loan Fund and is expected to save an estimated \$24,000 annually (net of debt service payments) in operating costs. Also during FY 2017 the Authority completed construction of a main water line and tank reservoir for the Briceville area that cost \$1,676,284 which should improve water pressure, reduce leaks and improve safe drinking water to a remote area of Anderson County. This project was financed by the Series 2016 Revenue & Refunding Bonds issued in July 2016.

Credit Ratings

During FY 2017, the Authority continued to maintain its sound public finance credit rating by receiving a Standard and Poor's (S & P) credit rating of "AA-".

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awards a Certificate of Achievement for Excellence in Financial Reporting. The Authority received this award for the seventh consecutive year for the FYE June 30, 2016. To be awarded a Certificate of Achievement; the Authority must publish an easily readable and efficiently organized CAFR. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of only one year. We believe that our current comprehensive annual financial report will meet the Certificate of Achievement Program's requirements and are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgments

The preparation of this CAFR results from the combined efforts of our staff, accountant, and technical assistance provided by our independent auditors. Those involved have our sincere appreciation for the individual and collective contributions made in preparation of the report. Thank you very much for your professional dedication.

Recognition and appreciation are also extended to the Board of Directors for its continued guidance of the operation of the Authority in a financially responsible and progressive manner.

Respectfully submitted,



Larry Clowers
General Manager

ANDERSON COUNTY WATER AUTHORITY

ORGANIZATION CHART

June 30, 2017

ACWA BOARD OF DIRECTORS



Larry Clowers
General Manager



Teresa Ridenour
Office Manager



Shelby Vann
Lori Noonan
Jeannie Gregory
Ollie Carter
Melissa VanHuss

Annelle Brown
HR Director
Payroll Officer

John Mitchell
Supt. of Operations



Jeff Elliott
Chief WTP Operator



Walter Sharp
Jon Martin
Randy Hensley
Steven Reed
Rusty Keily

Distribution



Cody Phillips
Kirk Bray
Jerry Lindsay
Jamie Craig
Clayton Haney
Kevin Jeffers
Paul Spears
Jimmy Spears
Steve Phillips
Justin Brown
Tony Parks
Cody Ridenour
Jeremiah Sweat
Logan Clowers (Part-Time)

Gary Sharp
Supt. Wastewater
Operator

David Noonan
Purchasing, Fleet &
Safety Supervisor

ANDERSON COUNTY WATER AUTHORITY
ROSTER OF AUTHORITY OFFICIALS AND OTHERS
June 30, 2017

Board of Directors

| | <u>Expiration of Term</u> |
|-----------------------------|----------------------------------|
| Zenith R. Rose, Chairman | September 30, 2019 |
| Jack Shelton, Vice Chairman | September 30, 2019 |
| Rex Lynch, Secretary | September 30, 2017 |
| Jack D. Hill | September 30, 2020 |
| Duane Stooksbury | September 30, 2018 |

Management

Larry Clowers, General Manager

Independent Auditors

Parsons & Wright
Certified Public Accountants
Kingston, Tennessee

Bond Counsel

Bass, Berry and Sims, PLC
Attorneys at Law
Nashville, Tennessee

General Counsel

C. Coulter Gilbert, Esquire
Attorney at Law
Knoxville, Tennessee

Consulting Engineer

Robert G. Campbell, PE
Robert B. Campbell & Associates, LP
Knoxville, Tennessee



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**Anderson County Water Authority
Tennessee**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2016

Executive Director/CEO

FINANCIAL SECTION

CERTIFIED PUBLIC ACCOUNTANTS

Joe Savage
Marie I. Niekerk
Josh Stone
Earl O. Wright - 1988 - 2002

Stephen J. Parsons - Retired
Meredith Haubrich
Rebecca Hutsell
William R. Scandlyn - 1988 - 1999

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Anderson County Water Authority
Clinton, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of Anderson County Water Authority (the "Authority") as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Anderson County Water Authority, as of June 30, 2017 and 2016, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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Telephone (931) 202-1220
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Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 11 and the Schedules of Changes in Net Pension Liability (Asset) and Related Ratios Based on Participation in The Public Employee Pension Plan of TCRS and Schedules of Employer Contributions Based on Participation in the Public Employee Pension Plan of TCRS on pages 35 through 36 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise Anderson County Water Authority's basic financial statements. The introductory, supplementary information and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The information included in the supplementary information section as listed in the table of contents is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2017, on our consideration of the Anderson County Water Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Anderson County Water Authority's internal control over financial reporting and compliance.

Parsons & Wright

Parsons & Wright
Certified Public Accountants
Kingston, Tennessee

November 8, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section presents management's analysis of Anderson County Water Authority's (the "Authority") financial condition and results of operations for the years ending June 30, 2017, 2016 and 2015. This information should be read in conjunction with the accompanying financial statements.

The Authority was created on July 16, 2007, by the Anderson County Commission and significant operations began on January 1, 2009. On July 10, 2008, the Board of Commissioners for the North Anderson County Utility District (NACUD) and Anderson County Utilities Board (ACUB), a part of Anderson County, entered into a consolidation agreement to merge their operations into the Authority with an effective date of January 1, 2009.

INDEPENDENT AUDIT

The unmodified report of our independent auditors, Parsons & Wright CPA's, is included in this report on pages 1 and 2.

FINANCIAL HIGHLIGHTS

Management believes the Authority's financial position is strong and results of operations continue to improve.

The Authority maintained good debt service coverage and was in compliance with all debt covenants. The following are key financial highlights:

- The Authority sold 710, 716, and 719 million gallons of water in 2017, 2016 and 2015.
- Total assets and deferred outflows of resources at June 30, 2017, 2016 and 2015 were \$30,732,736, \$26,257,199 and \$25,430,605 and exceeded liabilities (net position) by \$18,652,045, \$17,207,091 and \$17,054,842, respectively. Of the total net position, \$2,391,644, \$2,433,364 and \$2,538,216 were unrestricted and were available to support short-term operations for 2017, 2016 and 2015. Net position increased by \$1,444,954 in 2017, by \$152,249 in 2016 and \$73,767 in 2015.
- Operating revenues were \$5,932,600, \$5,574,291 and \$5,659,530 for 2017, 2016 and 2015.
- Operating expenses before depreciation were \$4,337,300, \$4,152,637 and \$4,372,975 for 2017, 2016 and 2015.
- Operating income was \$489,576, \$324,988 and \$151,663 for 2017, 2016 and 2015.
- The ratios of operating income to total operating revenues were 8.3%, 5.8%, and 2.7% for 2017, 2016 and 2015.
- Debt service coverage ratio was 2.81 for 2017, 2.61 for 2016 and 2.42 for 2015.
- There were no cash capital contributions received in 2017, 2016 and 2015. Noncash contributions recorded in 2017, 2016 and 2015 were \$1,280,585, \$137,707 and \$262,293.
- During 2017, 2016 and 2015 capital asset additions, including construction work-in progress projects completed, were \$6,119,652, \$660,203 and \$947,965.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

OVERVIEW OF THE ANNUAL FINANCIAL STATEMENTS

Management's Discussion and Analysis (MD&A) serves as an introduction to the basic financial statements and supplementary information. The MD&A represents management's examination and analysis of the Authority's financial condition and performance. Summary financial statement data, key financial and operational indicators used in the Authority's budget, bond resolutions and other management information were used for this analysis.

The financial statements report information about the Authority using full accrual accounting methods as utilized by similar business activities in the private sector. However, rate-regulated accounting principles applicable to private sector utilities are not used by government utilities.

The financial statements include a balance sheet; a statement of revenues, expenses and changes in net position; a statement of cash flows; and notes to the financial statements. The balance sheet presents the financial position of the Authority on a full accrual basis of accounting. While the balance sheet provides information about the nature and amount of resources and obligations at year-end, the statement of revenues, expenses and changes in net position presents the results of the business activities over the course of the fiscal year and information as to how the net position changed during the year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. This statement also provides certain information about the Authority's recovery of its costs.

The statement of cash flows presents cash receipt and cash disbursement information and changes in cash and cash equivalents resulting from operational, financing and investing activities.

The notes to the financial statements provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the Authority's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any.

The supplementary information provides information on debt service requirements and schedule of water rates and statistics. The required supplementary information provides information about the financial health of the Authority's defined benefit plan as administered by the Tennessee Consolidated Retirement System.

The compliance section includes the auditor's report on the Authority's internal controls and compliance. Also included is the auditor's schedule of audit findings and recommendations and disposition of prior year findings, when applicable.

SUMMARY OF ORGANIZATION AND BUSINESS

The Authority was created under the authority of the Tennessee General Assembly Private Act No. 40 and approved by the Anderson County Commission on July 16, 2007. The Authority began significant operations on January 1, 2009. The purpose of the Authority is to "acquire, construct, improve, extend, operate, and maintain a water system" in the unincorporated areas of Anderson County. The Authority serves approximately 9,591 water customers and 884 wastewater customers in Anderson County. The Authority's primary source of water is drawn from the Clinch River that forms Norris and Melton Hill lakes.

The Authority is governed by a Board of Directors composed of five citizens who reside in, or are current customers, of the Authority. All Board members are nominated by the Anderson County Mayor for a term of four years, subject to confirmation by the Anderson County Commission.

The Authority's main capital assets consist of approximately 632 miles of water lines, two water treatment plants, one office building, one wastewater treatment facility, and 12 water reservoir tanks.

The Authority receives no ongoing financial support from Anderson County, Tennessee and has no taxing authority. The Authority's revenues are derived from water charges based upon metered water consumption of customers. The water and wastewater rates are established by the Authority's Board of Directors.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

FINANCIAL ANALYSIS

The following comparative condensed financial statements and other selected information provides key financial data and indicators for management, monitoring, and planning. Net position may serve over time as a useful indicator of the Authority's financial position.

Condensed Balance Sheets (In Thousands of Dollars) June 30, 2017, 2016 and 2015

| | 2017 | 2016 | 2015 |
|---|------------------|------------------|------------------|
| ASSETS AND DEFERRED OUTFLOWS | | | |
| Current Assets | \$ 2,811 | \$ 3,001 | \$ 2,947 |
| Capital Assets: | | | |
| Producing - Net | 26,344 | 22,394 | 21,759 |
| Other Assets - Net | <u>468</u> | <u>497</u> | <u>286</u> |
| Total Assets | <u>29,623</u> | <u>25,892</u> | <u>24,992</u> |
| Deferred Outflows of Resources | | | |
| Deferred Bond Refunding Loss | 871 | 200 | 264 |
| Deferred Cost of Pension Plan | <u>238</u> | <u>165</u> | <u>175</u> |
| Total Deferred Outflows | <u>1,109</u> | <u>365</u> | <u>439</u> |
| TOTAL ASSETS AND DEFERRED OUTFLOWS | <u>\$ 30,732</u> | <u>\$ 26,257</u> | <u>\$ 25,431</u> |
| LIABILITIES, DEFERRED INFLOWS AND NET POSITION | | | |
| Liabilities: | | | |
| Current Liabilities | \$ 1,022 | \$ 923 | \$ 702 |
| Bonds Payable - Net of Current Portion | <u>11,019</u> | <u>8,072</u> | <u>7,588</u> |
| Total Liabilities | <u>12,041</u> | <u>8,995</u> | <u>8,289</u> |
| Deferred Inflows of Resources | | | |
| Deferred Inflows - Pension Plan | <u>39</u> | <u>56</u> | <u>86</u> |
| NET POSITION | | | |
| Net Investment in Capital Assets | 15,728 | 14,244 | 14,199 |
| Restricted for: | | | |
| Debt Service | 214 | 184 | 31 |
| Pensions | 317 | 346 | 286 |
| Unrestricted | <u>2,393</u> | <u>2,433</u> | <u>2,538</u> |
| Total Net Position | <u>18,652</u> | <u>17,207</u> | <u>17,055</u> |
| TOTAL LIABILITIES AND NET POSITION | <u>\$ 30,732</u> | <u>\$ 26,257</u> | <u>\$ 25,431</u> |

The largest portion of the Authority's net position reflects its net investment in capital assets. The Authority uses these capital assets to provide services; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to repay long-term debt.

The unrestricted net position may be used to meet the obligations to employees and creditors and provide current operating resources.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

FINANCIAL ANALYSIS (Continued)

Condensed Statements of Revenues, Expenses, and Changes in Net Position
(In Thousands of Dollars)
For the Years Ended June 30, 2017, 2016, and 2015

| | 2017 | 2016 | 2015 |
|---|------------------|------------------|------------------|
| Operating Revenues | | | |
| Water - Net | \$ 4,531 | \$ 4,446 | \$ 4,481 |
| Wastewater - Net | 925 | 829 | 856 |
| Connection Fees | 91 | 91 | 95 |
| Customer Forfeited Discounts | 131 | 111 | 118 |
| Tap Fees | 241 | 87 | 98 |
| Other Charges and Fees | 13 | 9 | 12 |
| Total Operating Revenues | <u>5,932</u> | <u>5,574</u> | <u>5,660</u> |
| Operating Expenses | | | |
| Water Treatment, Transmission and Distribution | 2,782 | 2,642 | 2,779 |
| Wastewater Treatment | 616 | 617 | 660 |
| Customer Billing and Accounting | 25 | 14 | 21 |
| General and Administrative | 914 | 880 | 913 |
| Depreciation | <u>1,106</u> | <u>1,097</u> | <u>1,135</u> |
| Total Operating Expenses | <u>5,443</u> | <u>5,249</u> | <u>5,508</u> |
| Operating Income (Loss) | <u>489</u> | <u>325</u> | <u>152</u> |
| Non-Operating Revenues (Expenses) | | | |
| Gain (Loss) on Disposal of Capital Assets | 36 | 0 | 0 |
| Investment Income (Loss) | 7 | 8 | 13 |
| Other Income | 30 | 45 | 20 |
| Debt Issuance Costs | (169) | 0 | 0 |
| Interest Expense | <u>(228)</u> | <u>(364)</u> | <u>(373)</u> |
| Total Non-Operating Revenues (Expenses) - Net | <u>(325)</u> | <u>(310)</u> | <u>(340)</u> |
| Increase (Decrease) in Net Position Before Capital Contributions | <u>164</u> | <u>15</u> | <u>(188)</u> |
| Capital Contributions | | | |
| Non-Cash | <u>1,281</u> | <u>138</u> | <u>262</u> |
| Change in Net Position | <u>1,445</u> | <u>152</u> | <u>74</u> |
| Net Position, Beginning of Year | <u>17,207</u> | <u>17,055</u> | <u>16,981</u> |
| Net Position, End of Year | <u>\$ 18,652</u> | <u>\$ 17,207</u> | <u>\$ 17,055</u> |

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

OTHER SELECTED INFORMATION

Selected Data:

| | 2017 | 2016 | 2015 |
|--|------------|------------|------------|
| Full-Time Equivalent Employees at Year-End | 31.5 | 31.5 | 32 |
| Full-Time Average Employees for the Year | 31.5 | 31.75 | 30 |
| Customers at Year-End: | | | |
| Water | 9,591 | 9,464 | 9,399 |
| Wastewater | 884 | 864 | 822 |
| Water (Millions of Gallons) | | | |
| Treated and Purchased | 1,077 | 1,111 | 1,148 |
| Sold | 710 | 716 | 719 |
| Per Average Employee: | | | |
| Operating Revenues | \$ 188,337 | \$ 175,568 | \$ 179,668 |
| Operating Expenses | \$ 172,794 | \$ 165,332 | \$ 174,853 |
| Realized Rate per 1,000 Gallons of Water Sold: | | | |
| Retail | \$ 8.55 | \$ 8.35 | \$ 8.51 |
| Wholesale | \$ 1.20 | \$ 1.30 | \$ 1.13 |
| Ratio of Operating Revenues to: | | | |
| Operating Expenses | 1.09 | 1.06 | 1.03 |
| Operating Expenses Excluding Depreciation | 1.37 | 1.34 | 1.29 |
| Total Assets | 0.19 | 0.21 | 0.22 |
| Net Position | 0.32 | 0.32 | 0.33 |
| Debt Related Ratios: | | | |
| Long-Term Debt to Net Position | 0.59 | 0.47 | 0.44 |
| Long-Term Debt to Total Assets | 0.36 | 0.31 | 0.30 |
| Coverage Ratio | 2.81 | 2.61 | 2.42 |

GENERAL TRENDS AND SIGNIFICANT EVENTS

Customer growth in the Authority has remained strong over the last several years, especially in the eastern area of the district primarily in the Andersonville and Bethel area near I-75.

FINANCIAL CONDITION

The Authority's financial condition remained strong at year-end with adequate current assets and a reasonable level of unrestricted net position. The current financial condition, staff capabilities, operating plans and upgrade plans to meet future water quality requirements are well balanced and under control.

Net customer accounts receivable at year-end 2017, 2016 and 2015 was \$688,847, \$694,010 and \$743,616. At year-end 2017, 2016 and 2015, 94%, 90% and 80% of billed accounts receivable were current within 30 days. The Authority's allowance for uncollectible accounts receivable was \$56,102 \$44,719 and \$72,470 for 2017, 2016 and 2015.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

RESULTS OF OPERATIONS

Operating Revenues

Revenues from operations fall into three general categories: water and wastewater service and ancillary charges. Ancillary charges include connection fees, account set up and customer forfeited discounts, and charges for miscellaneous billed services.

There was no increase in water or wastewater rates during FY 2017 or 2016.

During FY 2015, the Authority lowered the minimum monthly water billings from 1,500 to 1,200 gallons. Also during FY 2015, the Authority increased wastewater rates by 8%.

The average realized rate from retail water sales was \$8.55, \$8.35 and \$8.51 per thousand gallons and \$1.20, \$1.30 and \$1.13 per thousand gallons for wholesale water sales in 2017, 2016 and 2015.

Capital Contributions

The Authority collects water connection fees in order to ensure that current customers do not bear the burden of growth. These fees are paid by new customers and represent the cost of service connectivity of the new customer. These fees are paid at the time a new water customer is connected to the system. In addition, the Authority accepts new water lines that are donated by residential and commercial real estate developers, and various federal, state and local government entities.

Capital contributions during 2017, 2016 and 2015, consisted of the following:

| | 2017 | 2016 | 2015 |
|---|---------------------|-------------------|-------------------|
| Non-Cash: | | | |
| Anderson County, TN (via Federal Grants) | \$ 815,465 | \$ 137,707 | \$ 262,293 |
| State of Tennessee - Debt Forgiveness of State | | | |
| Drinking Water Revolving Loan Fund - Note Payable | <u>465,120</u> | <u>0</u> | <u>0</u> |
| Total Non-Cash | <u>\$ 1,280,585</u> | <u>\$ 137,707</u> | <u>\$ 262,293</u> |

The non-cash capital contributions from Anderson County (the "County") are funded primarily by various federal grant awards for which the County is the grantee and is responsible for administering these grants in accordance with various federal audit requirements including the Single Audit Act. After the grant projects are completed the capital asset are accepted by the Authority and placed into service.

The Authority's capital contributions activity for 2017 and 2016 are more fully described in Note 11 to the financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

RESULTS OF OPERATIONS (Continued)

Operating Expenses

Operating expenses, excluding depreciation, increased (decreased) by \$155,063 in 2017, \$(220,338) in 2016 and \$167,509 in 2015. This was a result of increases and (decreases) during 2017, 2016 and 2015 in:

| | 2017 | 2016 | 2015 |
|---|-------------------|---------------------|-------------------|
| Electricity and Utilities | \$ 8,107 | \$ (41,767) | \$ 23,594 |
| Salaries and Benefits | 31,231 | 0 | 68,514 |
| Purchased Water | (5,498) | (33,666) | 0 |
| Wastewater Treatment Costs | 2,210 | (36,631) | 23,646 |
| Insurance | 8,966 | (33,371) | 0 |
| Fuel | 4,442 | (27,029) | (21,994) |
| Repairs and Maintenance - Equipment | (15,228) | 8,617 | 13,659 |
| Chemicals | 22,156 | (27,813) | 11,156 |
| Repairs and Maintenance - Lines | 49,058 | (47,763) | 33,308 |
| Communications & Information Technology | 16,605 | 0 | 0 |
| Office Supplies & Postage | 12,066 | 0 | 0 |
| Other | 20,948 | 19,085 | 15,626 |
| Total | <u>\$ 155,063</u> | <u>\$ (220,338)</u> | <u>\$ 167,509</u> |

During 2017, the Authority had modest increases across several expense categories.

During 2016, the Authority realized savings in utilities (due to a prior year billing adjustment error for wastewater treatment), purchased water, treatment costs and chemicals, insurance, fuel and repairs and maintenance costs.

During 2015, the Authority hired one additional employee, electricity usage and chemical costs increased as the result of treating more water, increased charges from CUB for wastewater treatment fees and distribution supplies continued to increase as the result of repairing more water line leaks in the northern part of the district.

CAPITAL ASSETS

The Authority is improving its water treatment, distribution and storage system to reduce water line loss and provide adequate capacity for future customer growth. In addition, the Authority is improving its wastewater collection and treatment systems.

During 2017, 2016 and 2015, the Authority increased its capital assets before depreciation and disposals by \$6,153,133, \$660,203 and \$1,068,734. This increase is due to the following:

| | 2017 | 2016 | 2015 |
|--|---------------------|-------------------|---------------------|
| Easements | \$ 33,481 | \$ 0 | \$ 114,225 |
| Water Reservoirs, Line Improvements and Extensions | 2,966,168 | 244,871 | 432,740 |
| Wastewater Collection Lines and Equipment | 3,004,919 | 171,463 | 392,115 |
| Vehicles and Equipment | 140,158 | 217,164 | 129,654 |
| Office Buildings & Improvements | 8,407 | 0 | 0 |
| Office Furniture and Equipment | 0 | 26,705 | 0 |
| Total | <u>\$ 6,153,133</u> | <u>\$ 660,203</u> | <u>\$ 1,068,734</u> |

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CAPITAL ASSETS (Continued)

During 2017, the Authority completed a 12 mile long forced wastewater main line from the I-75 area to the Clinton Utilities Board wastewater treatment plant that cost approximately \$2,982,645. Also during 2017, the Authority replaced the main water lines and added a new 100,000-gallon water reservoir tank in the Briceville area for approximately \$1,676,284.

During 2016, the Authority purchased several new vehicles, machinery, equipment and continued to make improvements and upgrades to water lines and pump stations primarily located in the northern part of the service area.

During 2015, the Authority purchased the majority of easements for the 12 mile wastewater line project, the replacement of several water lines, the extension of wastewater lines and the purchase of several vehicles.

The Authority's capital asset activity for 2017 and 2016 is described in Notes 3 and 4 to the financial statements.

DEBT

During FY 2017 the Authority issued \$8,750,000 Series 2016 Revenue Bonds which included an advanced refunding of \$6,390,000 of the Series 2010 Revenue Bonds. Approximately \$1,567,230 of the net bond proceed were used to finance the Briceville area water line replacement and water tank reservoir project.

During FY 2016 the Authority finalized a State Revolving Loan Note Payable of \$1,860,480, net of \$465,120 in debt forgiveness, with an average interest rate of .70% payable over 20 years. The amount of the draw down by the Authority for 2017 and 2016 was \$1,551,471 and \$774,129, respectively with the remaining balance to be requested by December 31, 2017. The proceeds from this note payable were used to finance the construction of the 12-mile wastewater line project that was completed in 2017.

At June 30, 2017, 2016 and 2015, the Authority had \$11,486,441, \$8,349,449 and \$7,822,563 in revenue bonds and notes payable, net of unamortized bond premiums.

During 2017, 2016 and 2015, the Authority incurred \$227,738, \$364,229 and \$372,973 in interest expense. During 2017 and 2016 the Authority capitalized \$44,370 and \$577 of interest costs as part of capital asset costs.

The long-term debt to total assets ratio was .36, .31 and .30 at years-end 2017, 2016 and 2015, respectively.

More detailed information about the Authority's debt is described in Notes 7 and 8 to the financial statements.

NET PENSION ASSET (LIABILITY)

As calculated under GASB Statements No. 67, 68 and 71, the Authority's net pension asset was \$317,495, \$345,849 and \$286,464 as of year-end 2017, 2016 and 2015 for its participation in the Public Employee Retirement Plan of the Tennessee Consolidated Retirement System (TCRS). More detailed information about the Authority's participation in TCRS is described in Note 14 to the financial statements and the RSI section.

ECONOMIC FACTORS AND FISCAL YEAR 2018

- Number of water customers is projected to increase by 2% during 2018 due to the completion of several water line extensions and improvements.
- FY 2018 Budget:

| | |
|--------------------------|--------------------|
| Revenues | \$ 6,204,500 |
| Expenses | <u>(5,761,300)</u> |
| | |
| Increase in Net Position | \$ <u>443,200</u> |

- The budget includes increases of 4% for salaries during 2018.

CONTACTING THE AUTHORITY

This comprehensive annual financial report (CAFR) is designed to provide our customers, creditors and regulatory agencies with a general overview of the Authority's finances. If you have any questions about this report or need additional information, you may contact the Authority:

Mr. Larry Clowers, General Manager
Anderson County Water Authority
P.O. Box 70
Clinton, TN 37716
865-457-3033

BASIC FINANCIAL STATEMENTS

ANDERSON COUNTY WATER AUTHORITY

BALANCE SHEETS

| | As of June 30, | 2017 | 2016 |
|---|----------------|-------------------|----------------------|
| ASSETS AND DEFERRED OUTFLOWS | | | |
| CURRENT ASSETS | | | |
| Cash and Cash Equivalents | \$ | 578,594 | \$ 852,291 |
| Cash and Cash Equivalents - Restricted | | 184,034 | 87,137 |
| Certificates of Deposit | | 1,226,132 | 1,222,237 |
| Accounts Receivable - Customers | | | |
| (Net of Allowance for Uncollectible Accounts | | | |
| of \$56,102 for 2017 and \$44,719 for 2016.) | | 688,847 | 694,010 |
| Accrued Interest Receivable | | 2,112 | 2,266 |
| Inventories | | 130,945 | 143,510 |
| Total Current Assets | | 2,810,664 | 3,001,451 |
| NON-CURRENT ASSETS | | | |
| Capital Assets - Net | | 26,343,657 | 22,393,848 |
| Net Pension Asset | | 317,495 | 345,849 |
| Debt Service Funds on Deposit with the State of Tennessee | | 150,879 | 150,879 |
| Utility Deposits | | 635 | 635 |
| Total Non-Current Assets | | 26,812,666 | 22,891,211 |
| TOTAL ASSETS | | 29,623,330 | 25,892,662 |
| DEFERRED OUTFLOWS OF RESOURCES | | | |
| Deferred Bond Refunding Loss | | 871,216 | 199,675 |
| Deferred Outflows - Pension Plan | | 238,190 | 164,862 |
| Total Deferred Outflows of Resources | | 1,109,406 | 364,537 |
| TOTAL ASSETS AND DEFERRED OUTFLOWS | \$ | 30,732,736 | \$ 26,257,199 |

The accompanying notes are an integral part of these financial statements.

ANDERSON COUNTY WATER AUTHORITY

BALANCE SHEETS (Continued)

| | As of June 30, | 2017 | 2016 |
|---|----------------|--------------------------|-----------------------------|
| LIABILITIES, DEFERRED INFLOWS AND NET POSITION | | | |
| CURRENT LIABILITIES | | | |
| Accounts Payable | \$ | 240,083 | \$ 322,282 |
| Accrued Liabilities | | 53,355 | 55,184 |
| Accrued Interest Payable | | 18,919 | 25,657 |
| Compensated Absences Payable | | 50,799 | 54,196 |
| Customer Deposits | | 191,472 | 187,839 |
| Bonds and Notes Payable - Current Portion | | <u>467,072</u> | <u>278,000</u> |
| Total Current Liabilities | | 1,021,700 | 923,158 |
| NON-CURRENT LIABILITIES | | | |
| Bonds and Notes Payable - Net of Current Portion | | <u>11,019,369</u> | <u>8,071,449</u> |
| Total Liabilities | | <u>12,041,069</u> | <u>8,994,607</u> |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Deferred Inflows - Pension Plan | | <u>39,622</u> | <u>55,501</u> |
| NET POSITION | | | |
| Net Investment in Capital Assets | | 15,728,432 | 14,244,074 |
| Restricted: | | | |
| Debt Service | | 214,474 | 183,804 |
| Pensions | | 317,495 | 345,849 |
| Unrestricted | | <u>2,391,644</u> | <u>2,433,364</u> |
| Total Net Position | | <u>18,652,045</u> | <u>17,207,091</u> |
| TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION | \$ | <u><u>30,732,736</u></u> | \$ <u><u>26,257,199</u></u> |

The accompanying notes are an integral part of these financial statements.

ANDERSON COUNTY WATER AUTHORITY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

| | For the Years Ended June 30, | 2017 | 2016 |
|---|------------------------------|--------------------------|-----------------------------|
| OPERATING REVENUES | | | |
| Water - Net | \$ | 4,531,138 | \$ 4,446,482 |
| Wastewater - Net | | 925,396 | 829,453 |
| Connection Fees | | 90,865 | 90,536 |
| Customer Forfeited Discounts | | 131,148 | 111,194 |
| Tap Fees | | 241,437 | 87,145 |
| Other Charges and Fees | | 12,616 | 9,481 |
| Total Operating Revenues | | <u>5,932,600</u> | <u>5,574,291</u> |
| OPERATING EXPENSES | | | |
| Water Treatment, Transmission, and Distribution | | 2,781,611 | 2,642,133 |
| Wastewater Treatment | | 616,417 | 616,566 |
| Customer Billing and Accounting | | 24,567 | 13,940 |
| General and Administrative | | 914,705 | 879,998 |
| Depreciation | | 1,105,724 | 1,096,666 |
| Total Operating Expenses | | <u>5,443,024</u> | <u>5,249,303</u> |
| OPERATING INCOME (LOSS) | | <u>489,576</u> | <u>324,988</u> |
| NON-OPERATING REVENUES (EXPENSES) | | | |
| Gain (Loss) on Disposal of Capital Assets | | 35,500 | 0 |
| Interest Income | | 6,506 | 8,303 |
| Other Income (Expenses) - Net | | 29,600 | 45,480 |
| Debt Issuance Costs | | (169,075) | 0 |
| Interest Expense | | (227,738) | (364,229) |
| Total Non-Operating Revenues (Expenses) - Net | | <u>(325,207)</u> | <u>(310,446)</u> |
| INCREASE (DECREASE) IN NET POSITION BEFORE CAPITAL CONTRIBUTIONS | | <u>164,369</u> | <u>14,542</u> |
| CAPITAL CONTRIBUTIONS | | | |
| Non-Cash | | <u>1,280,585</u> | <u>137,707</u> |
| CHANGE IN NET POSITION | | 1,444,954 | 152,249 |
| NET POSITION, BEGINNING OF YEAR | | <u>17,207,091</u> | <u>17,054,842</u> |
| NET POSITION, END OF YEAR | \$ | <u><u>18,652,045</u></u> | \$ <u><u>17,207,091</u></u> |

The accompanying notes are an integral part of these financial statements.

ANDERSON COUNTY WATER AUTHORITY

STATEMENTS OF CASH FLOWS

| For the Years Ended June 30, | 2017 | 2016 |
|---|--------------------|--------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Receipts from Customers and Users | \$ 5,970,050 | \$ 5,656,779 |
| Payments to Employees | (2,104,151) | (2,092,815) |
| Payments to Suppliers | (2,397,516) | (1,985,353) |
| Net Cash Provided (Used) by Operating Activities | <u>1,468,383</u> | <u>1,578,611</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Acquisition and Construction of Capital Assets | (4,195,698) | (1,594,489) |
| Interest Paid on Debt | (223,201) | (313,164) |
| Principal Paid on Bonds and Notes Payable | (389,454) | (235,000) |
| Proceeds from Bonds and Notes Payable | 3,095,305 | 774,129 |
| Funds Deposited with the State of Tennessee | 0 | (150,879) |
| Proceeds from Sale of Materials & Disposal of Capital Assets | 65,100 | 45,480 |
| Net Cash Provided (Used) by Capital and Related Financing Activities | <u>(1,647,948)</u> | <u>(1,473,923)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Interest Income Received | 6,660 | 23,275 |
| Proceeds from Maturities of Certificates of Deposit | 0 | 1,000,000 |
| Purchases of Certificates of Deposit | (3,895) | (1,022,121) |
| Net Cash Provided (Used) by Investing Activities | <u>2,765</u> | <u>1,154</u> |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (176,800) | 105,842 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | <u>939,428</u> | <u>833,586</u> |
| CASH AND CASH EQUIVALENTS, END OF YEAR | <u>\$ 762,628</u> | <u>\$ 939,428</u> |

The accompanying notes are an integral part of these financial statements.

ANDERSON COUNTY WATER AUTHORITY
STATEMENTS OF CASH FLOWS (Continued)

| For the Years Ended June 30, | <u>2017</u> | <u>2016</u> |
|---|----------------------------|----------------------------|
| CASH AND CASH EQUIVALENTS AT END OF YEAR CONSIST OF: | | |
| Unrestricted Cash and Cash Equivalents | \$ 578,594 | \$ 852,291 |
| Restricted Cash and Cash Equivalents | <u>184,034</u> | <u>87,137</u> |
| Total | <u><u>\$ 762,628</u></u> | <u><u>\$ 939,428</u></u> |
| RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES | | |
| Operating Income (Loss) | \$ 489,576 | \$ 324,988 |
| Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities: | | |
| Depreciation | 1,105,724 | 1,096,666 |
| Provision for Uncollectible Receivables | 24,910 | 24,998 |
| Net Change in Net Pension (Asset) Obligation | 28,354 | (59,385) |
| Net Change in Deferred Outflows - Pensions | (73,328) | (43,894) |
| Net Change in Deferred Inflows - Pensions | (15,879) | 22,977 |
| Changes in: | | |
| Accounts Receivable, Net of Charge Offs | (19,747) | 24,608 |
| Other Current Assets | 12,565 | 8,909 |
| Accounts Payable | (82,199) | 174,592 |
| Other Accrued Liabilities | (1,829) | (14,434) |
| Compensated Absences Payable | (3,397) | 5,095 |
| Customer Deposits | <u>3,633</u> | <u>13,491</u> |
| Net Cash Provided by Operating Activities | <u><u>\$ 1,468,383</u></u> | <u><u>\$ 1,578,611</u></u> |
| NONCASH INVESTING, CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Bonds Issued to Refund Previously Issued Bonds | \$ 6,390,000 | \$ 0 |
| Debt Issuance Costs | 169,075 | 0 |
| Deferred Amount on Refunding of Bonds, Net | 155,320 | 0 |
| Amortization of Bond Premiums | 17,689 | 12,243 |
| Amortization of Deferred Cost of Defeased Bonds | 73,334 | 64,277 |
| Contribution of Capital Assets by Anderson County | 815,465 | 137,707 |
| Debt Forgiveness by the State of Tennessee | 465,120 | 0 |

The accompanying notes are an integral part of these financial statements.

ANDERSON COUNTY WATER AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017 and 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - Anderson County Water Authority (the "Authority") was created on July 16, 2007 by the Anderson County Commission under the authority of the Tennessee State Legislature Private Act No. 40 (House Bill No. 2388 and Senate Bill No. 2362) passed on May 7, 2007 and signed by the Governor on May 21, 2007.

On July 10, 2008, the Board of Commissioners for the North Anderson County Utility District (NACUD) and Anderson County Utilities Board (ACUB), a part of Anderson County, Tennessee, entered into a consolidation agreement to merge NACUD and ACUB into the Authority with an effective date of January 1, 2009. The Authority provides water and wastewater services to customers in the unincorporated areas of Anderson County, Tennessee.

The Authority's Board of Directors serves staggered four-year terms. The Anderson County Mayor nominates all five directors, which are subject to confirmation by the Anderson County Commission. Therefore, the Authority is considered a related organization of Anderson County as defined by the Governmental Accounting Standards Board. However, Anderson County, Tennessee (the "County") does not have any fiscal or budgetary control over the Authority. In addition, the County does not approve or pledge assets to secure the debts of the Authority. The operations of the Authority are funded by water and wastewater rates established by the Authority's Board of Directors.

A summary of the major accounting policies of the Authority are presented as follows:

Basis of Accounting and Presentation - The Authority's financial statements are presented on the full accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). The Authority applies all Governmental Accounting Standards Board (GASB) pronouncements.

All activities of the Authority are accounted for within a single proprietary (enterprise) fund. Proprietary funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The accounting and financial reporting treatment applied to the Authority is determined by its measurement focus. The transactions of the Authority are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the balance sheet. Net position (i.e., total assets and deferred outflows of resources, net of total liabilities and deferred inflows of resources, if any) are segregated into net investment in capital assets; restricted for capital asset activity and debt service; and unrestricted components.

Budgeting - The Authority adopts a flexible annual operating budget. The budget is adopted on a basis consistent with generally accepted accounting principles. The current operating budget details the Authority's plans to earn and expend funds for charges incurred for operation, maintenance, certain interest and general functions, and other charges for the fiscal year. The Authority's budget is a projection but is not legally binding.

Management submits a proposed budget to the Authority's Board of Directors prior to the July Board meeting. A budget is adopted by resolution prior to July 1.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents, Deposits and Investments - Cash and cash equivalents, for purposes of the statement of cash flows, include restricted and unrestricted cash on hand or on deposit, interest in State Treasurer's Investment Pool, certificates of deposit, and debt security investments with a maturity at purchase of three months or less.

Investments are reported at their fair value. Fair value is based upon quoted market prices. Realized gains and losses from the sale of investments are calculated separately from the change in the fair value using the specific identification method. Realized gains or losses in the current period include unrealized amounts from prior periods.

Restricted Assets - Restricted assets represent cash and investments maintained in accordance with bond resolutions, loan agreements, grant awards and other resolutions and formal actions of the Authority or by agreement for the purpose of funding certain debt service payments, depreciation and contingency activities, and improvements and extensions to the system. Restricted assets are generally not available for current operating expenses.

Receivables and Revenues - Revenues are billed monthly to customers on a cyclical meter reading basis. Unbilled revenues are accrued for estimated usage from the last meter reading date to year-end.

Accounts receivable are stated at the amount management expects to collect from outstanding balances. The Authority provides for estimated uncollectible receivables through a reduction of gross water revenues and a credit to an allowance based on its assessment of the current status of individual accounts and historical write-off experience. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

Operating revenues consist of net water and wastewater revenues, forfeited discounts, inspection fees and various service fees. Connection (tap) fees are recorded as revenue to the extent of expenses incurred in connecting a customer to the system. Connection fees in excess of costs, if any, are recorded as cash capital contributions.

Non-operating revenue consists of investment income and gains (losses) on the sale or disposal of capital assets. Investment income is interest earned and the change in unrealized gains and losses on the fair value of marketable debt securities.

Expenses - Operating expenses consist of the cost of water treatment, storage and distribution. Other operating expenses include customer billing, collections, administrative and general and depreciation on capital assets.

Non-operating expenses consist of interest on long-term liabilities, debt issuance costs and loss on the disposal or impairment of capital assets.

Inventories - Material and supply inventories are stated at cost using the first in, first out method. Incidental supplies are not included in inventory.

Capital Assets - Property, plant and equipment in service and construction in progress are recorded at cost, if purchased or constructed. Assets acquired through contributions from developers or other customers are capitalized at their estimated acquisition value, if available, or at engineer's estimated acquisition value or cost to construct at the date of the contribution. Utility systems acquired from other governmental service providers are recorded at the purchase price, limited to acquisition value.

Maintenance and repairs, which do not significantly extend the value or life of property, plant and equipment, are expensed as incurred.

Interest is not capitalized on project costs funded by contributed capital, such as grants, gifts and impact fees. Interest costs of tax-exempt borrowings are capitalized, net of related investment earnings on the proceeds, during the construction period. Depreciation is not recorded until the assets are actually put into use.

The Authority defines a capital asset as an asset with an initial individual cost, or a project with a cumulative cost of more than \$5,000 and an estimated useful life in excess of one year.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital assets are depreciated using primarily the straight-line method. Depreciation is calculated using the following estimated useful lives:

| | Years |
|---------------------------------------|-------|
| Water and Wastewater Treatment Plants | 40-50 |
| Transmission and Distribution Lines | 40-50 |
| Meters | 10-15 |
| Vehicles | 5-10 |
| Machinery and Equipment | 5-20 |
| Buildings and Improvements | 15-40 |
| Office Furniture and Equipment | 5-10 |

Long-Term Obligations and Costs - Long-term obligations are reported at face value, net of applicable premiums and discounts. Premiums and discounts and gains or losses on advance or current refundings or defeasances are deferred and amortized over the life of the related bonds.

Compensation Absences - Accumulated vacation eligible to be paid to employees at termination is recorded as an expense and liability as the benefits are earned. The Authority has assumed a first-in, first-out method of using accumulated compensated time and the related liability has been recorded as a liability in the financial statements.

Pensions - For purposes of measuring the net pension liability, or asset, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Authority's participation in the Public Employee Retirement Plan of the Tennessee Consolidated Retirement System (TCRS), and additions to/deductions from the Authority's fiduciary net position have been determined on the same basis as they are reported by the TCRS for the Public Employee Retirement Plan. For this purpose, benefits (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms of the Public Employee Retirement Plan of TCRS. Investments are reported at fair value.

Contributions - Contributions are recognized in the statement of revenues, expenses and changes in net position when earned. Contributions include developer contributed utility systems, capacity and other supplemental support by other utilities and industrial customers and federal, state and local grants in support of system improvements.

Presentation of Certain Taxes - The Authority collects various taxes from customers and remits these amounts to applicable taxing authorities. The Authority's accounting policy is to exclude these taxes from revenues and cost of sales.

Deferred Outflows/Inflows of Resources - In addition to assets, the balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. In addition to liabilities, the balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Net Position - Net position comprises the various net earnings from operating and non-operating revenues, expenses, and contributions of capital. Net position is classified in the following three components: net investment in capital assets; restricted for capital activity, debt service and pensions; and unrestricted net position. Net investment in capital assets consists of all capital assets, net of accumulated depreciation and deferred outflows of resources and deferred inflows of resources and reduced by outstanding debt that is attributable to the acquisition, construction, and improvement of those assets; debt or deferred inflow of resources attributable to unspent proceeds or other restricted cash and investments are excluded from the determination. Restricted for capital activity, debt service and pensions consists of net positions for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations, and enabling legislation, including self-imposed legal mandates.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The net position restricted for pensions is restricted due to state statutes, and the plan assets which are in trust, are to be used only for the benefit of retirees and beneficiaries, and are protected from the Authority's creditors. The unrestricted component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted components of net position.

Net Position Flow Assumption - Sometimes the Authority will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. To calculate the amounts to report as restricted – net position and unrestricted – net position in the financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. When both restricted and unrestricted resources are available for use, it is the Authority's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date, and reported amounts of revenues and expenses during the reporting period. Estimates are used to determine depreciation expense, the allowance for doubtful accounts and certain claims and judgment liabilities, among other accounts. Actual results may differ from those estimates.

Recently Issued Accounting Pronouncements

GASB Statement No. 82 - During the fiscal year ended June 30, 2017, the Authority implemented GASB Statement No. 82, *Pension Issues*, which requires the presentation of covered payroll, which is the portion of compensation paid to active employees on which contributions to the plan are based, in the note disclosures and the required supplementary information.

Reclassification of Comparative Financial Statements - Certain items in the 2016 financial statements have been reclassified to conform to the 2017 financial statements.

NOTE 2 - DEPOSITS AND INVESTMENTS

Tennessee Code Annotated (TCA) Section 7-82-108 and bond covenants restrict the types of depositories and investment securities available to the Authority. State statutes and bond indentures limit depositories to state or national banks, or credit unions located in the United States. The types of deposits and investments permitted are certificates of deposit, repurchase agreements in governmental obligations, state local government investment pool (SLGIP), obligations of states, municipalities, U.S. Government and federal agency debt securities.

At June 30, 2017 and 2016, the Authority had the following bank deposits and investments:

| | 2017 | 2016 |
|-------------------------|---------------------|---------------------|
| Deposits: | | |
| Demand Deposits | \$ 762,628 | \$ 939,428 |
| Certificates of Deposit | 1,226,132 | 1,222,237 |
| Total | <u>\$ 1,988,760</u> | <u>\$ 2,161,665</u> |

NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)

A summary of the bank deposits and investments on the balance sheets at June 30, 2017 and 2016 were as follows:

| | 2017 | 2016 |
|--|---------------------|---------------------|
| Current Assets: | | |
| Cash and Cash Equivalents | \$ 578,594 | \$ 852,291 |
| Cash and Cash Equivalents - Restricted | 184,034 | 87,137 |
| Certificates of Deposit | 1,226,132 | 1,222,237 |
| Total | <u>\$ 1,988,760</u> | <u>\$ 2,161,665</u> |

Restricted Cash Equivalents - The restricted cash and cash equivalents are for construction projects and also for required reserves by various covenants of the revenue bonds and are to be used solely for the repayment of debt and capital improvements. As of June 30, 2017 and 2016 the amount of restricted cash and cash equivalents was \$184,034 and \$87,137.

Custodial Credit Risk - Deposits - The Authority's deposits, with a carrying amount of \$1,988,760 and \$2,161,665 at June 30, 2017 and 2016, respectively, were covered by FDIC insurance, pledged investment collateral held in safekeeping by a custodial bank, or by the bank collateral pool administered by the Treasurer of the State of Tennessee. The bank may use one of three different pledged security levels (90%, 100% or 105%) depending on the specific bank holding the deposit. Participating banks determine the aggregate balance of their public fund accounts for the Authority. Collateral securities required to be pledged by the participating banks to protect their public fund accounts are pledged to the State Treasurer on behalf of the bank collateral pool. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured and classified as Category 1, under GASB Statement No. 40, for purposes of custodial credit risk disclosure.

Investment Income (Loss) - Investment income (loss) for 2017 and 2016 consisted of the following:

| | 2017 | 2016 |
|-----------------|-----------------|-----------------|
| Interest Income | <u>\$ 6,506</u> | <u>\$ 8,303</u> |

Investment Policies

Custodial Credit Risk: The Authority's investment policy requires that investment securities be registered in the name of Anderson County Water Authority. All safekeeping receipts for investment instruments are held in accounts in the Authority's name and all securities are registered in the Authority's name.

Credit Risk: The Authority's investment policy and state law limits investments in non-federal obligations to issuers that are rated in the two highest rating categories by a nationally recognized rating agency of such obligations.

Interest Rate Risk: The Authority's Investment Policy limits its holdings to obligations having a final maturity on the date of investment of not to exceed forty-eight (48) months. Investments are made based upon prevailing market conditions with the intent to hold the instrument until maturity. If the performance of the portfolio can be improved upon by the sale of an investment prior to maturity, the policy allows for the implementation of this strategy. The Authority uses the specific identification method to manage interest rate risk.

Concentration of Credit Risk: The Authority's Investment Policy has no limit to its exposure to various investment debt securities as a whole or individually.

The Authority's Investment Policy does not require diversification among authorized investment broker-dealers. Presently, the Authority has selected Raymond James, Inc. as its authorized broker-dealer.

NOTE 3 - CAPITAL ASSETS

A summary of capital asset activity and changes in accumulated depreciation for the year ended June 30, 2017 was as follows:

| | Balance 7/1/16 | Additions and Transfers | Deletions, Retirements and Transfers | Balance 6/30/17 |
|--|-------------------|-------------------------------|---|--------------------|
| Capital Assets Not Being Depreciated: | | | | |
| Land and Easements | \$ 504,359 | \$ 33,481 | \$ 0 | \$ 537,840 |
| Construction in Progress | 1,425,345 | 4,099,871 | (5,197,471) | 327,745 |
| Total Capital Assets Not Being Depreciated | 1,929,704 | 4,133,352 | (5,197,471) | 865,585 |
| Capital Assets Being Depreciated: | | | | |
| Water System: | | | | |
| Mains, Lines and Reservoirs | 23,430,831 | 2,966,168 | 0 | 26,396,999 |
| Treatment Facilities | 9,829,198 | 0 | 0 | 9,829,198 |
| Wastewater System: | | | | |
| Collection Lines and Equipment | 5,391,070 | 3,004,919 | 0 | 8,395,989 |
| Treatment Facilities | 340,489 | 0 | 0 | 340,489 |
| Other: | | | | |
| Building and Improvements | 537,025 | 8,407 | 0 | 545,432 |
| Miscellaneous Equipment & Tools | 67,647 | 0 | 0 | 67,647 |
| Vehicles and Machinery & Equipment | 1,201,886 | 140,158 | (95,304) | 1,246,740 |
| Office Furniture and Equipment | 133,650 | 0 | 0 | 133,650 |
| Total Capital Assets Being Depreciated | 40,931,796 | 6,119,652 | (95,304) | 46,956,144 |
| Less Accumulated Depreciation: | | | | |
| Water System: | | | | |
| Mains, Lines and Reservoirs | 10,712,183 | 565,209 | 0 | 11,277,392 |
| Treatment Facilities | 6,858,047 | 250,697 | 0 | 7,108,744 |
| Wastewater System: | | | | |
| Collection Lines and Equipment | 1,834,797 | 149,474 | 0 | 1,984,271 |
| Treatment Facilities | 150,534 | 7,776 | 0 | 158,310 |
| Other: | | | | |
| Building and Improvements | 81,286 | 13,601 | 0 | 94,887 |
| Miscellaneous Equipment & Tools | 58,479 | 3,671 | 0 | 62,150 |
| Vehicles and Machinery & Equipment | 682,929 | 105,198 | (95,304) | 692,823 |
| Office Furniture and Equipment | 89,397 | 10,098 | 0 | 99,495 |
| Total Accumulated Depreciation | 20,467,652 | 1,105,724 | (95,304) | 21,478,072 |
| Total Capital Assets Being Depreciated - Net | 20,464,144 | 5,013,928 | 0 | 25,478,072 |
| Total Capital Assets | \$ 22,393,848 | \$ 9,147,280 | \$ (5,197,471) | \$ 26,343,657 |

Depreciation expense was \$1,105,724 for 2017.

NOTE 3 - CAPITAL ASSETS (Continued)

A summary of capital asset activity and changes in accumulated depreciation for the year ended June 30, 2016, was as follows:

| | Balance 7/1/15 | Additions and Transfers | Deletions, Retirements and Transfers | Balance 6/30/16 |
|--|----------------------|-------------------------------|---|----------------------|
| Capital Assets Not Being Depreciated: | | | | |
| Land and Easements | \$ 504,359 | \$ 0 | \$ 0 | \$ 504,359 |
| Construction in Progress | <u>352,775</u> | <u>1,379,600</u> | <u>(307,030)</u> | <u>1,425,345</u> |
| Total Capital Assets Not Being Depreciated | <u>857,134</u> | <u>1,379,600</u> | <u>(307,030)</u> | <u>1,929,704</u> |
| Capital Assets Being Depreciated: | | | | |
| Water System: | | | | |
| Mains, Lines and Reservoirs | 23,185,960 | 244,871 | 0 | 23,430,831 |
| Treatment Facilities | 9,829,198 | 0 | 0 | 9,829,198 |
| Wastewater System: | | | | |
| Collection Lines and Equipment | 5,253,362 | 137,708 | 0 | 5,391,070 |
| Treatment Facilities | 306,734 | 33,755 | 0 | 340,489 |
| Other: | | | | |
| Buildings and Improvements | 537,025 | 0 | 0 | 537,025 |
| Miscellaneous Equipment & Tools | 67,647 | 0 | 0 | 67,647 |
| Vehicles and Machinery & Equipment | 984,722 | 217,164 | 0 | 1,201,886 |
| Office Furniture and Equipment | <u>106,945</u> | <u>26,705</u> | <u>0</u> | <u>133,650</u> |
| Total Capital Assets Being Depreciated | <u>40,271,593</u> | <u>660,203</u> | <u>0</u> | <u>40,931,796</u> |
| Less Accumulated Depreciation: | | | | |
| Water System: | | | | |
| Mains, Lines and Reservoirs | 10,136,603 | 575,580 | 0 | 10,712,183 |
| Treatment Facilities | 6,603,228 | 254,819 | 0 | 6,858,047 |
| Wastewater System: | | | | |
| Collection Lines and Equipment | 1,700,664 | 134,133 | 0 | 1,834,797 |
| Treatment Facilities | 143,538 | 6,996 | 0 | 150,534 |
| Other: | | | | |
| Buildings and Improvements | 67,860 | 13,426 | 0 | 81,286 |
| Miscellaneous Equipment & Tools | 54,808 | 3,671 | 0 | 58,479 |
| Vehicles and Machinery & Equipment | 584,212 | 98,717 | 0 | 682,929 |
| Office Furniture and Equipment | <u>80,073</u> | <u>9,324</u> | <u>0</u> | <u>89,397</u> |
| Total Accumulated Depreciation | <u>19,370,986</u> | <u>1,096,666</u> | <u>0</u> | <u>20,467,652</u> |
| Total Capital Assets Being Depreciated - Net | <u>20,900,607</u> | <u>(436,463)</u> | <u>0</u> | <u>20,464,144</u> |
| Total Capital Assets | <u>\$ 21,757,741</u> | <u>\$ 943,137</u> | <u>\$ (307,030)</u> | <u>\$ 22,393,848</u> |

Depreciation expense was \$1,096,666 for 2016.

NOTE 4 - CONSTRUCTION IN PROGRESS

Construction in progress at June 30 consisted of:

| Projects | 2017 | | 2016 | |
|---------------------------------------|-------------------|---|---------------------|---|
| | Actual To Date | Remaining Contractual Commitments | Actual To Date | Remaining Contractual Commitments |
| Mountain Rd. Wastewater Lines | \$ 50,087 | \$ 0 | \$ 0 | \$ 0 |
| Tecora Hills Water Lines | 78,092 | 0 | 0 | 0 |
| Fox Rd. Water Lines & Booster Station | 175,940 | 0 | 0 | 0 |
| Old Lake City Highway/Mountain Road | 0 | 0 | 155,241 | 0 |
| Briceville Water Line & Tank Project | 0 | 0 | 52,890 | 1,039,360 |
| Wastewater Line Project to CUB | 0 | 0 | 1,104,534 | 934,956 |
| Commercial Water Meter Replacement | 0 | 0 | 107,948 | 0 |
| Various Projects | 23,626 | 0 | 4,732 | 0 |
| Total Construction in Progress | <u>\$ 327,745</u> | <u>\$ 0</u> | <u>\$ 1,425,345</u> | <u>\$ 1,974,316</u> |

There were no contractual construction commitments as of June 30, 2017.

NOTE 5 - DEBT SERVICE FUNDS ON DEPOSIT WITH THE STATE OF TENNESSEE

During fiscal year 2016, the Authority obtained a loan from the State of Tennessee Clean Water - State Revolving Loan Note Payable for up to \$2,810,057 to be repaid in annual principal and interest payments of \$150,612 over 20 years. As required by this program, the Authority was required to deposit one year's worth of debt service payments, or \$150,608, with the State of Tennessee Comptroller of the Treasury – Office of State and Local Finance, the loan administrator. The funds are being held in the Tennessee Local Government Investment Pool (LGIP) in a pooled account established by the Tennessee Local Development Authority (TLDA). The Authority will be credited with a pro-rata share of the investment earnings. During 2016, the Authority was credited with \$271 in investment earnings which was received in 2017.

NOTE 6 - ACCRUED LIABILITIES

Accrued liabilities at June 30, 2017 and 2016 consisted of the following:

| | 2017 | 2016 |
|------------------------------------|------------------|------------------|
| Sales Taxes Payable | \$ 35,293 | \$ 31,548 |
| Accrued Salaries and Payroll Taxes | 18,062 | 23,636 |
| Total | <u>\$ 53,355</u> | <u>\$ 55,184</u> |

NOTE 7 - LONG-TERM DEBT

Long-term debt at June 30, 2017 and 2016 consisted of the following:

Revenue Bonds and Notes Payable

| | <u>2017</u> | <u>2016</u> |
|---|--------------------------------|-----------------------------|
| Revenue Term Bonds Series 2016 of \$8,750,000 with interest rates between 2% to 3% were issued on July 22, 2016. Semi-annual payments on June 1 and December 1 through June 1, 2036. Principal payments are annually deposited with the bond trustee on June 1, ranging from \$125,000 to \$615,000. Interest is paid semi-annually ranging from \$104,650 to \$9,225. Bond proceeds of \$7,290,195 were used to advance refund a portion of the Revenue Bonds Series 2010. | \$ 8,620,000 | \$ 0 |
| Revenue Term Bonds Series 2010 of \$8,650,000 with an interest rate of between 2% to 5%. Semi-annual payments on June 1 and December 1 through June 1, 2036. Principal payments are annually deposited with the bond trustee on June 1, ranging from \$165,000 to \$555,000. Interest is paid semi-annually ranging from \$167,167 to \$13,875. On July 22, 2016, \$6,390,000 of the bonds were defeased. The remaining outstanding bonds will be repaid as originally scheduled by June 1, 2020. | 785,000 | 7,420,000 |
| State Revolving Fund Loan Note Payable 2015 of \$2,810,057 with an interest rate of .70%. Monthly payments of \$12,737 to \$12,472 payable from April 2017 through April 2037. The total amount of loan draws through June 30, 2017 was \$2,325,600. Final drawdown is expected by December 31, 2017. | <u>1,846,026</u> 11,251,026 | <u>774,129</u> 8,194,129 |
| Add: Unamortized Bond Premium | <u>235,415</u> | <u>155,320</u> |
| Total | <u>\$ 11,486,441</u> | <u>\$ 8,349,449</u> |
| Current Portion | \$ 467,072 | \$ 278,000 |
| Long-Term | <u>11,019,369</u> | <u>8,071,449</u> |
| Total | <u>\$ 11,486,441</u> | <u>\$ 8,349,449</u> |

The Authority has pledged revenues as collateral for the Revenue Term Bonds Series 2016, 2010 and the State Revolving Fund Loan Note Payable 2015. The bond and note holders have placed statutory liens upon the Authority as permitted by TCA, Section 7-28-101, and will remain in effect until the bond issue and note are paid in full. There are bond and note covenants which require a minimum debt service coverage ratio of 1.2; the ratio for 2017 and 2016 was 2.81 and 2.61.

NOTE 7 - LONG-TERM DEBT (Continued)

Activity

The following is a summary of changes in long-term debt for 2017 and 2016:

| | Beginning Balance | Additions | Reductions | Ending Balance | Current Portion |
|-------------------|----------------------|----------------------|-----------------------|----------------------|--------------------|
| 2017 | | | | | |
| Revenue Bonds | \$ 7,420,000 | \$ 8,750,000 | \$ (6,765,000) | \$ 9,405,000 | \$ 380,000 |
| Note Payable | 774,129 | 1,551,471 | (479,574) | 1,846,026 | 87,072 |
| Add: Bond Premium | <u>155,320</u> | <u>253,104</u> | <u>(173,009)</u> | <u>235,415</u> | <u>0</u> |
| Total | <u>\$ 8,349,449</u> | <u>\$ 10,554,575</u> | <u>\$ (7,417,583)</u> | <u>\$ 11,486,441</u> | <u>\$ 467,072</u> |
| 2016 | | | | | |
| Revenue Bonds | \$ 7,655,000 | \$ 0 | \$ (235,000) | \$ 7,420,000 | \$ 245,000 |
| Note Payable | 0 | 774,129 | 0 | 774,129 | 33,000 |
| Add: Bond Premium | <u>167,563</u> | <u>0</u> | <u>(12,243)</u> | <u>155,320</u> | <u>0</u> |
| Total | <u>\$ 7,822,563</u> | <u>\$ 774,129</u> | <u>\$ (247,243)</u> | <u>\$ 8,349,449</u> | <u>\$ 278,000</u> |

Debt Service

The annual debt service requirements of the bonds and notes payable as of June 30, 2017 are as follows:

| Years Ending June 30, | Principal | Interest | Total |
|-----------------------|----------------------|---------------------|----------------------|
| 2018 | \$ 467,072 | \$ 239,674 | \$ 706,746 |
| 2019 | 482,684 | 228,936 | 711,620 |
| 2020 | 493,308 | 217,112 | 710,420 |
| 2021 | 513,920 | 204,350 | 718,270 |
| 2022 | 519,544 | 190,976 | 710,520 |
| 2023-2027 | 2,812,272 | 789,228 | 3,601,500 |
| 2028-2032 | 3,113,532 | 522,106 | 3,635,638 |
| 2033-2037 | <u>2,848,694</u> | <u>175,134</u> | <u>3,023,828</u> |
| Total | <u>\$ 11,251,026</u> | <u>\$ 2,567,516</u> | <u>\$ 13,818,542</u> |

Interest Expense

Interest expense for 2017 and 2016 consisted of the following:

| | 2017 | 2016 |
|--|-------------------|-------------------|
| Interest Paid | \$ 223,201 | \$ 313,164 |
| Change in Accrued Interest Payable | (6,738) | (392) |
| Less: Capitalization of Construction Period Interest | (44,370) | (577) |
| Amortization of Bond Premium | (17,689) | (12,243) |
| Amortization of Deferred Cost of Defeasance | <u>73,334</u> | <u>64,277</u> |
| Total | <u>\$ 227,738</u> | <u>\$ 364,229</u> |

The amortization of the deferred cost of defeasance is related to advance refundings of debt as described in Note 8 and a current refunding of debt that occurred during fiscal year 2011.

NOTE 7 - LONG-TERM DEBT (Continued)

Restricted Cash and Cash Equivalents - Debt Service

The Revenue Term Bonds - Series 2016 and 2010, require the Authority to make mandatory semi-annual sinking fund payments to the bond trustee, Regions Bank, who is responsible for paying the bondholder when the term bonds mature on June 1, 2036.

The Authority is required by various bond covenants to maintain the following restricted cash and cash equivalents at June 30, 2017 and 2016:

| | 2017 | 2016 |
|---|-----------|-----------|
| Bond Principal and Interest Payment Account | \$ 82,514 | \$ 58,582 |

NOTE 8 - DEFEASANCE OF DEBT

Advanced Refunding - 2017

On July 22, 2016, the Authority refinanced \$6,390,000 of the Series 2010 Revenue Bonds. The remaining outstanding portion of the Series 2010 Bonds will be repaid as previously scheduled with a final principal payment of \$245,000 due on June 1, 2020. The Authority placed \$7,290,195 of funds with the escrow agent (Regions Bank) which was used to purchase State and Local Government Securities (SLGS) for the purpose of generating resources for future debt service payments of \$9,355,839. Future payments consist of semi-annual interest payments due on January 1, 2017 through June 1, 2036, and annual principal payments due on June 1 with a final principal payment of \$520,000 due on June 1, 2036. The amount of the outstanding defeased debt as of June 30, 2017 was \$6,390,000. The advanced refunded bonds are considered defeased and the liability has been removed from the Authority's balance sheet. The escrowed investment securities exceeded the net carrying amount of the old debt by \$944,550. This deferred refunding loss will be amortized through June 1, 2036, using the stated interest method.

Due to the lower interest rates of the Series 2016, the refunding portion decreased total aggregate debt service payments by \$904,315. In addition, the Authority incurred an economic gain, the difference between the present values of the old and new debt service payments of \$757,172.

Advanced Refunding - 2010

On December 31, 2008, the Authority refinanced \$3,080,000 in revenue bonds previously issued by North Anderson County Utility District (NACUD) which were assumed by the Authority. The Authority placed \$3,355,507 of funds with the escrow agent (Regions Bank) which was used to purchase State and Local Government Securities (SLGS) for the purpose of generating resources for future debt service payments of \$3,540,450. Future payments consist of annual bond principal maturities of between \$275,000 to \$305,000 on January 1, 2010 through January 1, 2013, and a final principal redemption of \$1,920,000, which requires a call premium of 1%, on the call date of January 1, 2014. As a result, the advanced refunded bonds are considered to be defeased and the liability has been removed from the Authority's balance sheet. The escrowed investment securities exceeded the net carrying amount of the old debt by \$595,687. This amount was amortized over the original life of the old NACUD Series 2004 debt issue through January 1, 2019, using the stated interest required method.

Due to the additional eight years until maturity in 2026, the refunding increased total aggregate debt service payment by \$736,263. In addition, the Authority incurred an economic loss, the difference between the present values of the old and new debt service payments of \$145,899.

Deferred Outflows of Resources

As of June 30, 2017 and 2016 the remaining unamortized deferred cost of defeasance was \$871,216 and \$199,675.

NOTE 9 - COMPENSATED ABSENCES

Changes in compensated absences for the years ended June 30, 2017 and 2016, consisted of:

| | 2017 | 2016 |
|---------------------|------------------|------------------|
| Beginning Balance | \$ 54,196 | \$ 49,101 |
| Earned | 83,841 | 80,617 |
| Used | <u>(87,238)</u> | <u>(75,522)</u> |
| Ending Balance | \$ <u>50,799</u> | \$ <u>54,196</u> |
| Current Portion Due | \$ <u>50,799</u> | \$ <u>54,196</u> |

Since the amount of compensated absences used by the employees during 2017 and 2016 is more than the amount outstanding at June 30, 2017 and 2016, then the year-end liability amount has been recorded on the balance sheets as a current liability.

NOTE 10 - NET POSITION

Net position represents the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources, if any. The net position at June 30, 2017 and 2016 were as follows:

| | 2017 | 2016 |
|---|----------------------|----------------------|
| Net Investment in Capital Assets | | |
| Capital Assets, Net of Accumulated Depreciation | \$ 26,343,657 | \$ 22,393,848 |
| Less: Revenue Bonds and Notes Payable - | | |
| Net of Unamortized Premiums and Discounts | (11,486,441) | (8,349,449) |
| Add: Unamortized Deferred Refunding Losses | <u>871,216</u> | <u>199,675</u> |
| | <u>15,728,432</u> | <u>14,244,074</u> |
| Restricted for Debt Service: | | |
| Restricted Cash and Cash Equivalents | 82,514 | 58,582 |
| Debt Service Funds on Deposit with the State of Tennessee | 150,879 | 150,879 |
| Less: Accrued Interest Payable | <u>(18,919)</u> | <u>(25,657)</u> |
| | <u>214,474</u> | <u>183,804</u> |
| Restricted for Capital Asset Activity: | | |
| Restricted Cash and Cash Equivalents | 101,520 | 28,555 |
| Less: Accounts Payable for Capital Assets | <u>(101,520)</u> | <u>(28,555)</u> |
| | <u>0</u> | <u>0</u> |
| Restricted for Pensions: | | |
| Net Pension Asset | 317,495 | 345,849 |
| Unrestricted | <u>2,391,644</u> | <u>2,433,364</u> |
| Total | \$ <u>18,652,045</u> | \$ <u>17,207,091</u> |

NOTE 11 - CAPITAL CONTRIBUTIONS

Capital contributions during 2017 and 2016 were as follows:

| | <u>2017</u> | <u>2016</u> |
|---|---------------------|-------------------|
| Non-Cash: | | |
| Anderson County, TN (Funded by Federal Grants awarded to the County.) | \$ 815,465 | \$ 137,707 |
| State of Tennessee - Debt Forgiveness of State Drinking Water Revolving Loan - Note Payable | <u>465,120</u> | <u>0</u> |
| Total | <u>\$ 1,280,585</u> | <u>\$ 137,707</u> |

Noncash

During 2017, non-cash contributions received from Anderson County, which were funded by federal grants awarded to and administered by the County funded by the Office of Surface Mining for \$205,000 for water lines in the Upper Vowell Mountain area and from the U.S. Housing and Urban Development – Community Development Block Grant for \$610,465 for water lines along TN State Route 71 and Hickory Valley in the eastern end of Anderson County and western parts of Union County. Also during 2017 the State of Tennessee forgave \$465,120, or 20%, of the Authority's note payable to the State Drinking Water Revolving Loan Fund.

During 2016, non-cash contributions received from Anderson County, which were funded by federal grants awarded to and administered by the County (funded by the Appalachian Regional Commission), consisted of \$137,707 for the sewer lines on Elza Drive.

NOTE 12 - NET OPERATING REVENUES

Net operating revenues during 2017 and 2016 consisted of the following:

| | <u>Water</u> | <u>Wastewater</u> | <u>Other Charges</u> | <u>Total</u> |
|--------------------------------------|---------------------|-------------------|----------------------|---------------------|
| <u>2017</u> | | | | |
| Gross Revenues | \$ 4,551,823 | \$ 929,620 | \$ 476,066 | \$ 5,957,509 |
| Less: Provision for Bad Debt Expense | <u>(20,685)</u> | <u>(4,224)</u> | <u>0</u> | <u>(24,909)</u> |
| Operating Revenues - Net | <u>\$ 4,531,138</u> | <u>\$ 925,396</u> | <u>\$ 476,066</u> | <u>\$ 5,932,600</u> |
| <u>2016</u> | | | | |
| Gross Revenues | \$ 4,467,549 | \$ 833,383 | \$ 298,356 | \$ 5,599,288 |
| Less: Provision for Bad Debt Expense | <u>(21,067)</u> | <u>(3,930)</u> | <u>0</u> | <u>(24,997)</u> |
| Operating Revenues - Net | <u>\$ 4,446,482</u> | <u>\$ 829,453</u> | <u>\$ 298,356</u> | <u>\$ 5,574,291</u> |

NOTE 13 - WHOLESALE WATER SALES

The Authority sells treated water on a month-to-month basis to the Caryville - Jacksboro Utility District (CJUD) and the City of Rocky Top, Tennessee (formerly Lake City) for \$1.20 per 1,000 gallons. During 2017 and 2016, the revenues earned under these billings were \$247,924 and \$277,252.

NOTE 14 - DEFINED BENEFIT PENSION PLAN - TCRS

On January 1, 2009, the Authority established a defined benefit pension plan through the Public Employee Retirement Plan of the Tennessee Consolidated Retirement System, (TCRS). All full-time employees (also known as members) are required to participate.

Plan Description - Employees of the Authority are provided a defined benefit pension plan through the Public Employee Retirement Plan, an agent multiple-employer pension plan administered by the TCRS. TCRS was created by state statute under Tennessee Code Annotate (TCA) Title 8, Chapters 34-37. The TCRS Board of Trustees is responsible for the proper operation and administration of the TCRS. The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the plans of TCRS. TCRS issues a publicly available financial report that can be obtained at www.treasury.tn.gov/tcrs.

Benefits Provided - TCA Title 8, Chapters 34-37 establishes the benefit terms and can be amended only by the Tennessee General Assembly. The Authority's Board of Directors may adopt the benefit terms permitted by state statute. Members are eligible to retire with an unreduced benefit at age 60 with 5 years of service credit or after 30 years of service credit regardless of age. Benefits are determined by a formula using the member's highest five consecutive year average compensation and the member's years of service credit. Reduced benefits for early retirement are available at age 55 for members who are vested. Members vest with five years of service credit. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10 percent and include projected service credits. A variety of death benefits are available under various eligibility criteria.

Member and beneficiary annuitants are entitled to automatic cost of living adjustments (COLA's) after retirement. A COLA is granted each July for annuitants retired prior to the 2nd of July in the previous year. A COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3%, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half percent and one percent. A member who leaves employment may withdraw their employee contributions, plus any accumulated interest.

Employees Covered by Benefit Terms - At the measurement dates of June 30, 2016 and 2015, the following employees were covered by the benefit terms:

| | 2016 | 2015 |
|--|------|------|
| Inactive Employees or Beneficiaries Currently Receiving Benefits | 2 | 1 |
| Inactive Employees Entitled to but Not Yet Receiving Benefits | 1 | 1 |
| Active Employees | 32 | 32 |
| Total | 35 | 34 |

Contributions - Contributions for employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Employees contribute 5% of salary. The Authority makes employer contributions at the rate set by the TCRS Board of Trustees as determined by an actuarial valuation. For the years ended June 30, 2017 and 2016, the Actuarially Determined Contributions (ADC) for Anderson County Water Authority were \$88,747 and \$85,062 based on a rate of 5.86% and 5.88% of covered payroll, respectively. By law, employer contributions are required to be paid. The TCRS may intercept the Authority's state shared taxes, if applicable, if the required employer contributions are not remitted. The employer's ADC and member contributions are expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of unfunded liability.

Net Pension Liability (Asset)

The Authority's net pension liability (asset) was measured as of June 30, 2016 and 2015, and the total pension liability used to calculate net pension liability (asset) was determined by an actuarial valuation as of those dates.

NOTE 14 - DEFINED BENEFIT PENSION PLAN - TCRS (Continued)

Actuarial Assumptions - The total pension liability as of June 30, 2016 and 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---------------------------|---|
| Inflation | 3.0% |
| Salary Increases | Graded salary ranges from 8.97% to 3.71% based on age, including inflation, averaging 4.25% |
| Investment Rate of Return | 7.5%, net of pension plan investment expenses, including inflation |
| Cost-of-living-adjustment | 2.5% |

Mortality rates were based on actual experience from the June 30, 2012 actuarial experience study adjusted for some of the expected future improvement in life expectancy.

The actuarial assumptions used in the June 30, 2016 and 2015 actuarial valuations were based on the results of an actuarial experience study performed for the period July 1, 2008 through June 30, 2012. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2012 actuarial experience study by considering the following three techniques: (1) the 25-year historical return of the TCRS at June 30, 2012, (2) the historical market returns of asset classes from 1926 to 2012 using the TCRS investment policy allocation, and (3) capital market projections that were utilized as a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expenses and inflation) are developed for each major asset class. Four sources of capital market projections were blended and utilized in the third technique. The blended capital market projection established the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding inflation of 3%.

The target allocation and best estimates of arithmetic real rates of return, net of 3% inflation, for each major asset class are summarized in the following table:

| Asset Class | Long-Term Expected Real Rate of Return | Target Allocation |
|---------------------------------------|---|------------------------------|
| U.S. Equity | 6.46% | 33.00% |
| Developed Market International Equity | 6.26% | 17.00% |
| Emerging Market International Equity | 6.40% | 5.00% |
| Private Equity and Strategic Lending | 4.61% | 8.00% |
| U.S. Fixed Income | 0.98% | 29.00% |
| Real Estate | 4.73% | 7.00% |
| Short-Term Securities | 0.00% | 1.00% |
| Total | | 100.00% |

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.5% based on a blending of the three factors described above.

Discount Rate - The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that employer contributions from the Authority will be made at the actuarially determined contribution rate pursuant to an actuarial valuation in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plans' fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

NOTE 14 - DEFINED BENEFIT PENSION PLAN - TCRS (Continued)

Changes in Net Pension Liability (Asset)

| | Increase (Decrease) | | |
|---|-------------------------|-----------------------------|-------------------------------|
| | Total Pension Liability | Plan Fiduciary Net Position | Net Pension Liability (Asset) |
| Balance at June 30, 2014 | \$ 1,167,075 | \$ 1,453,539 | \$ (286,464) |
| Changes for the Year: | | | |
| Service Cost | 98,271 | 0 | 98,271 |
| Interest | 93,817 | 0 | 93,817 |
| Differences between expected and actual experience | (49,528) | 0 | (49,528) |
| Contributions - Employer | 0 | 85,182 | (85,182) |
| Contributions - Employees | 0 | 71,962 | (71,962) |
| Net Investment Income | 0 | 46,425 | (46,425) |
| Benefit Payments, including Refunds of Employee Contributions | (28,914) | (28,914) | 0 |
| Administrative Expenses | 0 | (1,624) | 1,624 |
| Net Change | 113,646 | 173,031 | (59,385) |
| Balance at June 30, 2015 | 1,280,721 | 1,626,570 | (345,849) |
| Changes for the Year: | | | |
| Service Cost | 106,108 | 0 | 106,108 |
| Interest | 103,737 | 0 | 103,737 |
| Differences between expected and actual experience | 17,901 | 0 | 17,901 |
| Contributions - Employer | 0 | 85,062 | (85,062) |
| Contributions - Employees | 0 | 71,912 | (71,912) |
| Net Investment Income | 0 | 44,853 | (44,853) |
| Benefit Payments, including Refunds of Employee Contributions | (7,333) | (7,333) | 0 |
| Administrative Expenses | 0 | (2,435) | 2,435 |
| Net Change | 220,413 | 192,059 | 28,354 |
| Balance at June 30, 2016 | \$ 1,501,134 | \$ 1,818,629 | \$ (317,495) |

Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate - The following presents the net pension liability (asset) of the Authority calculated using the discount rate of 7.5%, as well as what the net pension liability (asset) would be if it were calculated using a discount rate that is 1% lower (6.5%) or 1% higher (8.5%) than the current rate:

| Net Pension Liability (Asset) | 1% Decrease 6.50% | Current Discount Rate 7.50% | 1% Increase 8.50% |
|-------------------------------|----------------------|-----------------------------------|----------------------|
| 2016 | \$ (57,857) | \$ (317,495) | \$ (529,162) |
| 2015 | \$ (122,838) | \$ (345,849) | \$ (527,586) |

NOTE 14 - DEFINED BENEFIT PENSION PLAN - TCRS (Continued)

Pension Expense (Income) and Deferred Outflows of Resources and Deferred Inflows of Resources

Pension Expense (Income) - For the fiscal years ended June 30, 2017 and 2016, the Authority recognized pension expense of \$28,321 and \$4,932.

Deferred Outflows of Resources and Deferred Inflows of Resources - For the fiscal year ended June 30, 2017 and 2016, the Authority reported deferred outflows of resources and deferred inflows of resources as follows:

| | Deferred Outflows of Resources | | Deferred Inflows of Resources | |
|--|--------------------------------|-------------------|-------------------------------|------------------|
| | 2017 | 2016 | 2017 | 2016 |
| Differences between Expected and Actual Experience | \$ 86,111 | \$ 80,227 | \$ 39,622 | \$ 44,575 |
| Net Difference between Projected and Actual Investment Earnings | 63,332 | 0 | 0 | 10,926 |
| Employer contributions subsequent to the measurement dates of June 30, 2016 and 2015 | 88,747 | 84,635 | 0 | 0 |
| Total | <u>\$ 238,190</u> | <u>\$ 164,862</u> | <u>\$ 39,622</u> | <u>\$ 55,501</u> |

The amount shown above for “Employer contributions subsequent to the measurement dates of June 30, 2016 and 2015”, will be recognized as a reduction (increase) to the net pension liability (asset) in the following measurement period.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in the pension expense as follows:

| Years Ended June 30: | |
|----------------------|-----------|
| 2018 | \$ 15,466 |
| 2019 | 15,466 |
| 2020 | 37,064 |
| 2021 | 23,596 |
| 2022 | 7,064 |
| 2023 & Thereafter | 11,165 |

In the table above, positive amounts will increase pension expense while negative amounts will decrease pension expense.

Payable to the Pension Plan

At June 30, 2017 and 2016, the Authority reported no accounts payable to TCRS.

Required Supplementary Information

The Authority has presented as required supplementary information (RSI) following the notes to the financial statements, present multiyear trend information about whether the net pension liability (asset) assets is increasing or decreasing over time relative to the plan’s fiduciary net position and if the Authority has made its actuarial determined contributions as required by the TCRS.

NOTE 15 - RISK MANAGEMENT

The Authority is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority's loss exposure for general liability and worker's compensation is limited by state law.

During fiscal years 2017 and 2016, the Authority obtained general liability, vehicle, errors and omissions, worker's compensation, and other property and casualty insurance coverage through commercial insurance.

Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

The occurrence deductible for each insurance policy of the Authority is as follows: comprehensive general liability \$0, public official's liability \$2,500, electronic data processing \$0, property \$1,000, automobile \$500, and umbrella policy \$0.

NOTE 16 - ECONOMIC CONCENTRATION

The Authority's area covers the unincorporated areas of Anderson County located in East Tennessee. At June 30, 2017 and 2016, the Authority served and water customers located in a semi-rural area 25 miles from Knoxville, Tennessee. The Authority's ten largest customers accounted for 13% and 14% of water revenues during 2017 and 2016.

NOTE 17 - SUBSEQUENT EVENT

In August 2017, the Authority entered into an agreement to purchase a one acre lot next to the office building on Charles Seviars Blvd. (TN State Route 61) in Clinton, Tennessee for approximately \$115,000. The Authority plans to build a warehouse and distribution facility for work crews to support water and wastewater line repairs and maintenance.

REQUIRED SUPPLEMENTARY INFORMATION

ANDERSON COUNTY WATER AUTHORITY

**SCHEDULES OF CHANGES IN NET PENSION LIABILITY (ASSET) AND RELATED RATIOS
BASED ON PARTICIPATION IN THE PUBLIC EMPLOYEE PENSION PLAN OF TCRS**

Last Three Fiscal Years Ending June 30

| | 2016 | 2015 | 2014 |
|--|---------------------|---------------------|---------------------|
| Total Pension Liability | | | |
| Service Cost | \$ 106,108 | \$ 98,271 | \$ 58,821 |
| Interest | 103,737 | 93,817 | 74,681 |
| Changes in Benefit Terms | 0 | 0 | 0 |
| Differences between Actual and Expected Experience | 17,901 | (49,528) | 100,283 |
| Change of Assumptions | 0 | 0 | 0 |
| Benefit Payments, Including Refunds of Employee Contributions | (7,333) | (28,914) | (7,269) |
| Net Change in Pension Liability | 220,413 | 113,646 | 226,516 |
| Total Pension Liability - Beginning | 1,280,721 | 1,167,075 | 940,559 |
| Total Pension Liability - Ending (a) | <u>\$ 1,501,134</u> | <u>\$ 1,280,721</u> | <u>\$ 1,167,075</u> |
| Plan Fiduciary Net Position | | | |
| Contributions - Employer | \$ 85,062 | \$ 85,182 | \$ 75,969 |
| Contributions - Employees | 71,912 | 71,962 | 65,831 |
| Net Investment Income | 44,853 | 46,425 | 197,213 |
| Benefit Payments, Including Refunds of Employee Contributions | (7,333) | (28,914) | (7,269) |
| Administrative Expenses | (2,435) | (1,624) | (1,094) |
| Net Change in Plan Fiduciary Net Position | 192,059 | 173,031 | 330,650 |
| Plan Fiduciary Net Position - Beginning | 1,626,570 | 1,453,539 | 1,122,889 |
| Plan Fiduciary Net Position - Ending (b) | <u>\$ 1,818,629</u> | <u>\$ 1,626,570</u> | <u>\$ 1,453,539</u> |
| Net Pension Liability (Asset) - Ending (a) - (b) | <u>\$ (317,495)</u> | <u>\$ (345,849)</u> | <u>\$ (286,464)</u> |
| Plan Fiduciary Net Position as % of Total Pension Liability | 121.15% | 127.00% | 124.55% |
| Covered Payroll | \$ 1,446,761 | \$ 1,456,098 | \$ 1,316,623 |
| Net Pension Liability (Asset) as a % of Covered Payroll | -21.95% | -23.75% | -21.76% |

Notes: (1) The measurement period is for the previous fiscal year.

(2) Fiscal year 2015 was the first year the Authority implemented GASB Statement No. 68.

(3) Future years will be added to this schedule until 10 years of information is available.

ANDERSON COUNTY WATER AUTHORITY

SCHEDULES OF EMPLOYER CONTRIBUTIONS BASED ON PARTICIPATION IN THE
PUBLIC EMPLOYEE PENSION PLAN OF TCRS

Last Four Fiscal Years Ending June 30

| | 2017 | 2016 | 2015 | 2014 |
|---|--------------|--------------|--------------|--------------|
| Actuarially Determined Contribution (ADC) | \$ 88,747 | \$ 85,062 | \$ 85,182 | \$ 75,969 |
| Contributions Made in Relation to ADC | 88,747 | 85,062 | 85,182 | 75,969 |
| Contribution Deficiency (Excess) | \$ 0 | \$ 0 | \$ 0 | \$ 0 |
| Covered Payroll | \$ 1,514,454 | \$ 1,446,761 | \$ 1,456,098 | \$ 1,316,623 |
| Contributions as a % of Covered Payroll | 5.86% | 5.88% | 5.85% | 5.77% |

Notes to the Schedule

Valuation Date: Actuarially determined contribution rates for FY 2017 was based on the results of the June 30, 2015 actuarial valuation. Detailed below are the methods and assumptions used in the June 30, 2015 actuarial valuation.

Methods and Assumptions Used to Determine Contribution Rates:

| | |
|-------------------------------|--|
| Actuarial Cost Method | Entry Age Normal |
| Amortization Method | Level Dollar, Closed (not to exceed 20 years) |
| Remaining Amortization Period | Varies by Year |
| Asset Valuation | 10 Year Smoothed within a 20% corridor to market value |
| Inflation | 3.0% |
| Salary Increases | Graded salary ranges from 8.97 to 3.71% based on age, including inflation, averaging 4.25%. |
| Investment Rate of Return | 7.5%, net of investment expense, including inflation |
| Retirement Age | Pattern of retirement determined by experience study. |
| Mortality | Customized table based on actual experience including an adjustment for some anticipated improvements. |
| Cost of Living Adjustments | 2.5% |

Note: (A) Future years will be added to this schedule until 10 years of information is available.

SUPPLEMENTARY INFORMATION

ANDERSON COUNTY WATER AUTHORITY
SCHEDULE OF DEBT SERVICE REQUIREMENTS
June 30, 2017

| Years Ending June 30, | Revenue Term Bonds Series 2016 | | Revenue Term Bonds Series 2010 | | State Revolving Fund Loan Note Payable 2015 | | Total | Total | Total |
|-----------------------------|-----------------------------------|--------------|-----------------------------------|-----------|--|------------|---------------|--------------|---------------|
| | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest | Total |
| 2018 | \$ 125,000 | \$ 205,400 | \$ 255,000 | \$ 21,626 | \$ 87,072 | \$ 12,648 | \$ 467,072 | \$ 239,674 | \$ 706,746 |
| 2019 | 135,000 | 201,650 | 260,000 | 15,250 | 87,684 | 12,036 | 482,684 | 228,936 | 711,620 |
| 2020 | 135,000 | 197,600 | 270,000 | 8,100 | 88,308 | 11,412 | 493,308 | 217,112 | 710,420 |
| 2021 | 425,000 | 193,550 | 0 | 0 | 88,920 | 10,800 | 513,920 | 204,350 | 718,270 |
| 2022 | 430,000 | 180,800 | 0 | 0 | 89,544 | 10,176 | 519,544 | 190,976 | 710,520 |
| 2023 | 445,000 | 167,900 | 0 | 0 | 90,180 | 9,540 | 535,180 | 177,440 | 712,620 |
| 2024 | 460,000 | 159,000 | 0 | 0 | 90,816 | 8,904 | 550,816 | 167,904 | 718,720 |
| 2025 | 470,000 | 149,800 | 0 | 0 | 91,452 | 8,268 | 561,452 | 158,068 | 719,520 |
| 2026 | 480,000 | 140,400 | 0 | 0 | 92,088 | 7,632 | 572,088 | 148,032 | 720,120 |
| 2027 | 500,000 | 130,800 | 0 | 0 | 92,736 | 6,984 | 592,736 | 137,784 | 730,520 |
| 2028 | 505,000 | 120,800 | 0 | 0 | 93,384 | 6,336 | 598,384 | 127,136 | 725,520 |
| 2029 | 515,000 | 110,700 | 0 | 0 | 94,044 | 5,676 | 609,044 | 116,376 | 725,420 |
| 2030 | 520,000 | 100,400 | 0 | 0 | 94,704 | 5,016 | 614,704 | 105,416 | 720,120 |
| 2031 | 545,000 | 88,700 | 0 | 0 | 95,364 | 4,356 | 640,364 | 93,056 | 733,420 |
| 2032 | 555,000 | 76,438 | 0 | 0 | 96,036 | 3,684 | 651,036 | 80,122 | 731,158 |
| 2033 | 575,000 | 63,950 | 0 | 0 | 96,708 | 3,012 | 671,708 | 66,962 | 738,670 |
| 2034 | 585,000 | 49,574 | 0 | 0 | 97,392 | 2,328 | 682,392 | 51,902 | 734,294 |
| 2035 | 600,000 | 34,950 | 0 | 0 | 98,076 | 1,644 | 698,076 | 36,594 | 734,670 |
| 2036 | 615,000 | 18,450 | 0 | 0 | 98,760 | 960 | 713,760 | 19,410 | 733,170 |
| 2037 | 0 | 0 | 0 | 0 | 82,758 | 266 | 82,758 | 266 | 83,024 |
| Totals | \$ 8,620,000 | \$ 2,390,862 | \$ 785,000 | \$ 44,976 | \$ 1,846,026 | \$ 131,678 | \$ 11,251,026 | \$ 2,567,516 | \$ 13,818,542 |

ANDERSON COUNTY WATER AUTHORITY

SCHEDULE OF RATES AND STATISTICS

June 30, 2017 and 2016

1. Monthly Water Rates

All Customers:

1st 1,200 gallons - \$18.00 minimum bill.

All over 1,200 gallons - \$6.20 per 1,000 gallons.

2. Monthly Wastewater Rates

Sewer Residential:

1st 1,200 gallons of water used - \$24.48 minimum bill.

All over 1,200 gallons of water used - \$9.32 per 1,000 gallons.

Sewer Commercial:

1st 1,200 gallons of water used - \$24.48 minimum bill.

All over 1,200 gallons of water used - \$10.58 per 1,000 gallons.

3. Service Charges:

| | | |
|---|----|-----|
| Residential Connection Fee | \$ | 40 |
| Customer Deposits - Residential Renters | | 100 |
| Commercial Connection Fee | | 100 |
| Wastewater Connection Fee | | 50 |
| Reconnection Fee for Nonpayment | | 50 |
| Returned Check Fee | | 25 |
| Reactivation Fee | | 20 |

4. New Service Installation

Water Tap Fees for:

| | | |
|----------|----|-------------------|
| ¾" | \$ | 900 |
| 1" | | 1,300 |
| 2" | | 2,800 |
| Above 2" | | 1,000 |
| | | Plus actual costs |

5. There were 9,591 and 9,464 water and 884 and 864 wastewater customers at June 30, 2017 and 2016.

ANDERSON COUNTY WATER AUTHORITY
SCHEDULE OF EXPENDITURES OF STATE AWARDS
For the Year Ended June 30, 2017

| <u>Grantor Agency</u> | <u>Program Name</u> | <u>CFDA Number</u> | <u>Contract or Grant #</u> | <u>Expenditures/ Amounts Earned</u> |
|--|--|------------------------|--------------------------------|---|
| STATE AWARD | | | | |
| Direct Loan: Tennessee Department of Environment and Conservation | Capitalization Grants for Clean Water State Revolving Fund Loan (Non-Federal Portion) | N/A | CG2 2014-331 | \$ <u>1,427,653</u> |

Note: Significant Accounting Policies:


The Schedule of Expenditures of State Awards includes the grant activity of the Authority and is presented on the accrual basis of accounting.

The information in this schedule is presented in accordance with requirements of the Tennessee Comptroller of the Treasury Audit Guide. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in, the preparation of the basic financial statements.

| AWWA Free Water Audit Software: Reporting Worksheet | | | | | | | | | | WAS v5.0 American Water Works Association. |
|---|--|---|--|--|--|--|--|--|--|---|
| <div style="display: flex; justify-content: space-around;"> ? Click to access definition + Click to add a comment </div> | | Water Audit Report for: Anderson County Water Authority (0000514) Reporting Year: 2017 7/2016 - 6/2017 | | | | | | | | |
| Please enter data in the white cells below. Where available, metered values should be used; if metered values are unavailable please estimate a value. Indicate your confidence in the accuracy of the | | | | | | | | | | |
| All volumes to be entered as: MILLION GALLONS (US) PER YEAR | | | | | | | | | | |
| To select the correct data grading for each input, determine the highest grade where the utility meets or exceeds all criteria for that grade and all grades below it. | | | | | | | | | | |
| <div style="display: flex; justify-content: space-between;"> <div style="width: 60%;"> WATER SUPPLIED <div style="display: flex; justify-content: space-between; margin-top: 10px;"> <div> Volume from own sources: + ? 8 1,037.347 MG/Yr Water imported: + ? 8 40.013 MG/Yr Water exported: + ? 8 206.305 MG/Yr </div> <div style="width: 30%; text-align: right;"> Master Meter and Supply Error Adjustments Pcnt: 3 1.00% 0 0 Value: MG/Yr Pcnt: 2 1.00% 0 0 Value: MG/Yr Pcnt: 2 1.00% 0 0 Value: MG/Yr </div> </div> </div> </div> <div style="display: flex; justify-content: space-between; margin-top: 10px;"> <div> WATER SUPPLIED: 862.431 MG/Yr </div> <div style="width: 30%; text-align: right;"> Enter negative % or value for under-registration Enter positive % or value for over-registration </div> </div> | | | | | | | | | | |
| AUTHORIZED CONSUMPTION <div style="display: flex; justify-content: space-between; margin-top: 10px;"> <div> Billed metered: + ? 8 503.502 MG/Yr Billed unmetered: + ? n/a 0.000 MG/Yr Unbilled metered: + ? 9 76.600 MG/Yr Unbilled unmetered: + ? 10 0.001 MG/Yr </div> <div style="width: 30%; text-align: right;"> Pcnt: 1.25% 0 0 0 Value: 0.001 MG/Yr Pcnt: 0.25% 0 0 0 Value: 0.270 MG/Yr Pcnt: 1.25% 0 0 0 Value: MG/Yr Pcnt: 0.25% 0 0 0 Value: MG/Yr </div> </div> | | | | | | | | | | |

AUTHORIZED CONSUMPTION: 580.103 MG/Yr

Click here: ? for help using option buttons below
 Use buttons to select percentage of water supplied OR value



AWWA Free Water Audit Software:

System Attributes and Performance Indicators

WAS v5.0

American Water Works Association.

Water Audit Report for: Anderson County Water Authority (0000514)

Reporting Year: 2017 7/2016 - 6/2017

*** YOUR WATER AUDIT DATA VALIDITY SCORE IS: 83 out of 100 ***

System Attributes:

| | | |
|--|-----------|---|
| Apparent Losses: | 10.758 | MG/Yr |
| + Real Losses: | 271.570 | MG/Yr |
| = Water Losses: | 282.328 | MG/Yr |
| | | |
| ? Unavoidable Annual Real Losses (UARL): | 221.64 | MG/Yr |
| | | |
| Annual cost of Apparent Losses: | \$47,335 | |
| Annual cost of Real Losses: | \$167,830 | Valued at Variable Production Cost |

Return to Reporting Worksheet to change this assumption

Performance Indicators:

| | | | |
|-------------------------|---|---|--|
| Financial: | { | <p>Non-revenue water as percent by volume of Water Supplied: 41.6%</p> <p>Non-revenue water as percent by cost of operating system: 5.7%</p> | Real Losses valued at Variable Production Cost |
| | | | |
| Operational Efficiency: | { | <p>Apparent Losses per service connection per day: 3.07 gallons/connection/day</p> <p>Real Losses per service connection per day: N/A gallons/connection/day</p> <p>Real Losses per length of main per day*: 1,177.26 gallons/mile/day</p> <p>Real Losses per service connection per day per psi pressure: N/A gallons/connection/day/psi</p> | |
| | | | |
| | | From Above, Real Losses = Current Annual Real Losses (CARL): 271.57 million gallons/year | |
| | | ? Infrastructure Leakage Index (ILI) [CARL/UARL]: 1.23 | |

* This performance indicator applies for systems with a low service connection density of less than 32 service connections/mile of pipeline

STATISTICAL SECTION

This part of the Authority's Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the Authority's overall financial health.

Contents

Pages

Financial Trends

These schedules contain trend information to help the reader understand how the Authority's financial performance and well-being have changed over time..... 42-43

Revenue Capacity

These schedules contain information to help the reader assess the Authority's operating revenues and customer statistics. 44-48

Debt Capacity

These schedules present information to help the reader assess the affordability of the Authority's current levels of outstanding debt and the Authority's ability to issue additional debt in the future. 49-50

Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the Authority's financial activities take place. 51-52

Operating Information

These schedules contain service data to help the reader understand how the information in the Authority's financial report relates to the water services provided by the Authority. 53-54

Sources: Unless otherwise noted, the information in these schedules is derived from the Comprehensive Annual Financial Reports for the relevant year.

ANDERSON COUNTY WATER AUTHORITY

NET POSITION BY COMPONENT

Last Ten Fiscal Years

| Fiscal Year | | | Net Investment in Capital Assets | Restricted | | | Unrestricted | Total |
|----------------|-----|----|-------------------------------------|-----------------|---------------------|----------|--------------|------------|
| | | | | Debt Service | Capital Activity | Pensions | | |
| 2008 | (A) | \$ | 0 | \$ 0 | \$ 0 | \$ 0 | \$ 14,823 | \$ 14,823 |
| 2009 | (B) | | 12,765,165 | 17,862 | 627,330 | 0 | 2,630,990 | 16,041,347 |
| 2010 | | | 13,134,668 | 25,260 | 45,000 | 0 | 2,508,266 | 15,713,194 |
| 2011 | | | 13,196,514 | 16,503 | 0 | 0 | 2,517,613 | 15,730,630 |
| 2012 | | | 13,425,235 | 16,582 | 0 | 0 | 2,511,511 | 15,953,328 |
| 2013 | | | 13,863,610 | 18,333 | 0 | 0 | 2,687,448 | 16,569,391 |
| 2014 | | | 14,132,114 | 27,569 | 100,000 | 0 | 2,463,093 | 16,722,776 |
| 2015 | (C) | | 14,199,130 | 31,032 | 0 | 286,464 | 2,538,216 | 17,054,842 |
| 2016 | | | 14,244,074 | 183,804 | 0 | 345,849 | 2,433,364 | 17,207,091 |
| 2017 | | | 15,728,432 | 214,474 | 0 | 317,495 | 2,391,644 | 18,652,045 |

Notes: (A) FY 2008 was the first year the Authority was organized.

(B) FY 2009 was the first year the Authority began operations (effective January 1, 2009).

(C) FY 2015 the Authority implemented GASB Statements No. 68 and 71.

ANDERSON COUNTY WATER AUTHORITY
CHANGES IN NET POSITION
Last Ten Fiscal Years

| | 2017 | 2016 | (C) 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | (B) 2009 | (A) 2008 |
|---|---------------------|-------------------|------------------|-------------------|-------------------|-------------------|------------------|---------------------|----------------------|------------------|
| Operating Revenues | | | | | | | | | | |
| Water - Net | \$ 4,531,138 | \$ 4,446,482 | \$ 4,480,748 | \$ 4,194,593 | \$ 3,993,754 | \$ 3,965,496 | \$ 3,713,110 | \$ 3,894,825 | \$ 1,873,956 | \$ 0 |
| Wastewater - Net | 925,396 | 829,453 | 855,701 | 699,653 | 735,767 | 732,686 | 641,015 | 578,260 | 339,171 | 0 |
| Connection Fees | 90,865 | 90,536 | 95,450 | 90,920 | 87,590 | 123,143 | 105,190 | 50,810 | 11,201 | 0 |
| Customer Forfeited Discounts | 131,148 | 111,194 | 118,050 | 110,039 | 105,100 | 111,258 | 87,518 | 0 | 41,300 | 0 |
| Tap Fees | 241,437 | 87,145 | 97,850 | 150,250 | 91,210 | 68,650 | 55,620 | 40,550 | 15,500 | 0 |
| Other Charges and Fees | 12,616 | 9,481 | 11,731 | 11,308 | 16,362 | 7,901 | 17,728 | 40,127 | 43,201 | 0 |
| Total Operating Revenues | 5,932,600 | 5,574,291 | 5,659,530 | 5,256,763 | 5,029,783 | 5,009,134 | 4,620,181 | 4,604,572 | 2,324,329 | 0 |
| Operating Expenses | | | | | | | | | | |
| Water Treatment, Transmission and Distribution | 2,781,611 | 2,642,133 | 2,778,791 | 2,818,994 | 2,685,646 | 2,621,711 | 2,444,457 | 2,488,121 | 1,402,607 | 0 |
| Wastewater Treatment | 616,417 | 616,566 | 660,458 | 600,936 | 522,323 | 533,027 | 462,561 | 449,829 | 246,428 | 0 |
| Customer Billing and Accounting | 24,567 | 13,940 | 20,629 | 15,882 | 9,843 | 31,152 | 100,940 | 189,670 | 119,442 | 0 |
| General and Administrative | 914,705 | 879,998 | 913,097 | 769,654 | 623,275 | 599,888 | 617,668 | 626,086 | 377,710 | 5,200 |
| Depreciation | 1,105,724 | 1,096,666 | 1,134,892 | 1,112,120 | 1,074,093 | 963,933 | 915,378 | 901,475 | 436,347 | 0 |
| Total Operating Expenses | 5,443,024 | 5,249,303 | 5,507,867 | 5,317,586 | 4,915,180 | 4,749,711 | 4,541,004 | 4,655,181 | 2,582,534 | 5,200 |
| Operating Income (Loss) | 489,576 | 324,988 | 151,663 | (60,823) | 114,603 | 259,423 | 79,177 | (50,609) | (258,205) | (5,200) |
| Non-Operating Revenues (Expenses) | | | | | | | | | | |
| Gain (Loss) on Disposal of Capital Assets | 35,500 | 0 | 0 | (18,498) | 53,126 | 36,915 | 12,000 | (15,721) | 10,281 | 0 |
| Investment Income | 6,506 | 8,303 | 12,576 | 9,183 | 4,997 | (1,828) | 24,253 | 14,669 | 20,484 | 23 |
| Other Income (Expense) - Net | 29,600 | 45,480 | 20,208 | 71,233 | 0 | 0 | 0 | 0 | 0 | 0 |
| Debt Issuance Costs | (169,075) | 0 | 0 | 0 | 0 | 0 | 0 | (138,411) | 0 | 0 |
| Interest (Expense) | (227,738) | (364,229) | (372,973) | (383,398) | (360,087) | (193,613) | (334,791) | (283,081) | (148,657) | 0 |
| Non-Operating Revenues (Expenses) - Net | (325,207) | (310,446) | (340,189) | (321,480) | (301,964) | (158,526) | (298,538) | (422,544) | (117,892) | 23 |
| Increase (Decrease) in Net Position Before Capital Contributions | 164,369 | 14,542 | (188,526) | (382,303) | (187,361) | 100,897 | (219,361) | (473,153) | (376,097) | (5,177) |
| Capital Contributions | | | | | | | | | | |
| Cash | 0 | 0 | 0 | 160,590 | 197,528 | 121,799 | 236,800 | 145,000 | 2,988,916 | 20,000 |
| Non-Cash | 1,280,585 | 137,707 | 262,293 | 375,098 | 605,897 | 0 | 0 | 0 | 13,413,705 | 0 |
| Total Capital Contributions | 1,280,585 | 137,707 | 262,293 | 535,688 | 803,425 | 121,799 | 236,800 | 145,000 | 16,402,621 | 20,000 |
| Change in Net Position | \$ 1,444,954 | \$ 152,249 | \$ 73,767 | \$ 153,385 | \$ 616,064 | \$ 222,696 | \$ 17,439 | \$ (328,153) | \$ 16,026,524 | \$ 14,823 |

Notes: (A) FY 2008 was the first year the Authority was organized.
(B) FY 2009 was the first year the Authority began operations (effective January 1, 2009).
(C) FY 2015 the Authority implemented GASB Statements No. 68 and No. 71.

ANDERSON COUNTY WATER AUTHORITY
CUSTOMER STATISTICS, WATER RATES, AND TAP SALES
Last Nine Fiscal Years

| Fiscal Year | | Water Customers | Former ACUB Territory | | Former NACUD Territory | | Annual Water Tap Sales |
|-------------|-----|-----------------|-----------------------|------------------------|------------------------|------------------------|------------------------|
| | | | Minimum Bill (A) | Rate Per 1,000 Gallons | Minimum Bill (A) | Rate Per 1,000 Gallons | |
| 2009 | (C) | 8,990 | \$ 15.20 | \$ 4.90 | \$ 21.14 | \$ 5.42 | 19 |
| 2010 | | 9,136 | 15.20 | 4.90 | 21.14 | 5.42 | 69 |
| 2011 | (D) | 9,132 | 18.00 | 5.50 | 18.00 | 5.50 | 66 |
| 2012 | (E) | 9,126 | 18.00 | 5.50 | 18.00 | 5.50 | 95 |
| 2013 | | 9,227 | 18.00 | 5.50 | 18.00 | 5.50 | 124 |
| 2014 | (F) | 9,283 | 18.00 | 6.20 | 18.00 | 6.20 | 149 |
| 2015 | (G) | 9,399 | 18.00 | 6.20 | 18.00 | 6.20 | 77 |
| 2016 | | 9,464 | 18.00 | 6.20 | 18.00 | 6.20 | 51 |
| 2017 | | 9,591 | 18.00 | 6.20 | 18.00 | 6.20 | 91 |

- Notes:
- (A) Minimum bill is based upon the first 1,200 gallons of water purchased.
 - (B) Rates are the same for any size meter.
 - (C) FY 2009 was the first year the Authority began operations (effective January 1, 2009).
 - (D) During FY 2011, the Authority changed the rate per 1,000 gallons to \$5.50 and the monthly minimum residential billing to \$18.00 for ratepayers in the former ACUB and NACUD territories.
 - (E) During FY 2012, the Authority reduced the monthly minimum billing to 1,500 gallons.
 - (F) During FY 2014, the Authority increased the rate per 1,000 gallons to \$6.20.
 - (G) During FY 2015, the Authority reduced the monthly minimum billing to 1,200 gallons.

ANDERSON COUNTY WATER AUTHORITY
WATER TREATED, SOLD, AND CONSUMED
Last Nine Fiscal Years

| Fiscal Year | Gallons of Water (In Thousands) | | | Percent Lost |
|-------------|------------------------------------|----------------------------|-------------------|-----------------|
| | Water Treated and Purchased | Water Sold and Consumed | Water Unbilled | |
| 2009 | 495,339 | 335,174 | 160,165 | 32.3% |
| 2010 | 1,015,372 | 684,203 | 331,169 | 32.6% |
| 2011 | 1,047,568 | 688,207 | 359,361 | 34.3% |
| 2012 | 1,131,927 | 748,779 | 383,148 | 33.8% |
| 2013 | 1,116,747 | 749,325 | 367,421 | 32.9% |
| 2014 | 1,131,480 | 752,809 | 378,671 | 33.5% |
| 2015 | 1,147,559 | 787,879 | 359,681 | 31.3% |
| 2016 | 1,111,380 | 787,591 | 323,789 | 29.1% |
| 2017 | 1,077,360 | 786,407 | 290,954 | 27.0% |

Note: FY 2009 was the first year the Authority began operations (effective January 1, 2009).

ANDERSON COUNTY WATER AUTHORITY

ANNUAL TAPS SOLD

Last Nine Fiscal Years

| <u>Fiscal Year</u> | <u>Water Meter Taps Sold</u> | <u>Sewer Taps Sold</u> | <u>Total Taps</u> |
|------------------------|----------------------------------|----------------------------|-------------------|
| 2009 | 19 | 0 | 19 |
| 2010 | 69 | 9 | 78 |
| 2011 | 66 | 27 | 93 |
| 2012 | 95 | 12 | 107 |
| 2013 | 124 | 10 | 134 |
| 2014 | 149 | 20 | 169 |
| 2015 | 77 | 10 | 87 |
| 2016 | 51 | 4 | 55 |
| 2017 | 91 | 12 | 103 |

Note: FY 2009 was the first year the Authority began operations
(effective January 1, 2009).

ANDERSON COUNTY WATER AUTHORITY

NUMBER OF CUSTOMERS BY TYPE

Last Nine Fiscal Years

| <u>Fiscal Year</u> | <u>Water</u> | <u>Wastewater</u> |
|--------------------|--------------|-------------------|
| 2009 | 8,990 | 919 |
| 2010 | 9,136 | 893 |
| 2011 | 9,132 | 889 |
| 2012 | 9,126 | 792 |
| 2013 | 9,227 | 801 |
| 2014 | 9,283 | 824 |
| 2015 | 9,399 | 822 |
| 2016 | 9,464 | 864 |
| 2017 | 9,591 | 884 |

Note: FY 2009 was the first year the Authority began operations
(effective January 1, 2009).

ANDERSON COUNTY WATER AUTHORITY

TEN LARGEST CUSTOMERS

Current Fiscal Year and Eight Fiscal Years Ago

| Customer | Type of Business | 2017 | | 2009 (B) | |
|---|------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
| | | (A) Total Annual Sales | Percentage of Total Sales | (A) Total Annual Sales | Percentage of Total Sales |
| City of Rocky Top | Municipality | \$ 130,339 | 2.88% | \$ 49,634 | 2.65% |
| Mountain Lake Marina | Recreation | 68,005 | 1.50% | 38,517 | 2.06% |
| Mariner Health | Health Care | 61,478 | 1.36% | 26,488 | 1.41% |
| Clinton Utility Board | Municipality | 78,398 | 1.73% | 15,186 | 0.81% |
| Stardust Marina | Recreation | 61,645 | 1.36% | 16,268 | 0.87% |
| TVA | Electrical Power Distributor | 74,282 | 1.64% | 26,684 | 1.42% |
| Waterside Marina | Recreation | 44,750 | 0.99% | 16,043 | 0.86% |
| Shoney's of Knoxville | Restaurant | 29,469 | 0.65% | N/A | N/A |
| Clinton/Knoxville KOA - Fox Campground | Recreation | 20,668 | 0.46% | N/A | N/A |
| Meadowview Senior Living | Health Care | 14,098 | 0.31% | N/A | N/A |
| City of Caryville | Municipality | N/A | N/A | 5,851 | 0.31% |
| Norris Dam State Park | Recreation | N/A | N/A | 1,696 | 0.09% |
| Rocky Top Marina | Recreation | N/A | N/A | 11,843 | 0.63% |
| Total | | \$ <u>583,132</u> | <u>12.87%</u> | \$ <u>208,210</u> | <u>11.11%</u> |

Note: (A) Sales includes net water revenues only.

(B) FY 2009 is for the initial six month period ending June 30, 2009.

ANDERSON COUNTY WATER AUTHORITY
OUTSTANDING DEBT PER CUSTOMER
Last Nine Fiscal Years

| <u>Fiscal Year</u> | <u>Revenue Bonds and Notes Payable (A)</u> | <u>Number of Customers (B)</u> | <u>Amount of Outstanding Debt Per Customer</u> |
|--------------------|--|------------------------------------|--|
| 2009 (C) | \$ 4,750,000 | 8,990 | \$ 528 |
| 2010 | 4,550,000 | 9,136 | 498 |
| 2011 | 8,703,192 | 9,132 | 953 |
| 2012 | 8,495,299 | 9,126 | 931 |
| 2013 | 8,277,558 | 9,227 | 897 |
| 2014 | 8,054,979 | 9,283 | 868 |
| 2015 | 7,822,563 | 9,399 | 832 |
| 2016 | 8,349,449 | 9,464 | 882 |
| 2017 | 11,486,441 | 9,591 | 1,198 |

Notes: (A) Net of related unamortized bond premiums or discounts.

(B) Water customers at fiscal year end.

(C) Fiscal year 2009 was the first year the Authority began operations (effective January 1, 2009).

(D) No debt to personal income ratio is shown because personal income for the Authority's service area, which excludes the Cities of Oak Ridge, Clinton, and Norris, TN, is not available

ANDERSON COUNTY WATER AUTHORITY

PLEDGED REVENUE COVERAGE

Last Nine Fiscal Years

| (A) Fiscal Year | (B) Gross Revenues | (C) Operating Expenses | Net Revenues Available for Debt Service | Debt Service Requirements | | | (E) Coverage Ratio |
|-----------------------|--------------------------|------------------------------|---|---------------------------|-------------------------|------------|--------------------------|
| | | | | Principal | (D) Interest Paid | Total | |
| 2009 | \$ 2,344,813 | \$ 2,146,187 | \$ 198,626 | \$ 150,000 | \$ 95,729 | \$ 245,729 | 0.80 |
| 2010 | 4,619,241 | 3,753,706 | 865,535 | 200,000 | 199,975 | 399,975 | 2.16 |
| 2011 | 4,644,434 | 3,625,626 | 1,018,808 | 165,000 | 262,947 | 427,947 | 2.38 |
| 2012 | 5,007,306 | 3,785,778 | 1,221,528 | 195,000 | 329,188 | 524,188 | 2.33 |
| 2013 | 5,034,780 | 3,841,087 | 1,193,693 | 205,000 | 325,955 | 530,955 | 2.25 |
| 2014 | 5,265,946 | 4,205,466 | 1,060,480 | 210,000 | 321,188 | 531,188 | 2.00 |
| 2015 | 5,672,106 | 4,372,975 | 1,299,131 | 220,000 | 316,989 | 536,989 | 2.42 |
| 2016 | 5,582,594 | 4,152,637 | 1,429,957 | 235,000 | 313,164 | 548,164 | 2.61 |
| 2017 | 5,939,106 | 4,337,300 | 1,601,806 | 389,454 | 178,831 | 568,285 | 2.81 |

- Notes: (A) FY 2009 is for a six month period beginning January 1, 2009, the effective date of significant operations.
 (B) Includes operating revenues and investment interest income.
 (C) Does not include depreciation expense.
 (D) Includes interest paid net of capitalization construction period interest.
 (E) The Revenue Bond Series 2016 and 2010 and the 2015 Note Payable covenants require a coverage ratio of 1.20.

ANDERSON COUNTY WATER AUTHORITY
DEMOGRAPHIC AND ECONOMIC INDICATORS (E)

Last Nine Fiscal Years

| Fiscal Year | Population (A) | Personal Income In Thousands (A) | Per Capita Personal Income (A) | Median Age (A) | School Attendance (B) | Unemployment Rates (C) | |
|----------------|----------------|--|--------------------------------------|-------------------|--------------------------|---------------------------|-------|
| | | | | | | County | State |
| 2009 | 74,738 | \$ 2,258,433 | \$ 30,218 | 41.4 | 8,541 | 11.2% | 10.8% |
| 2010 | 74,849 | 2,154,154 | 28,780 | 39.2 | 8,117 | 9.1% | 10.0% |
| 2011 | 75,129 | 2,580,901 | 34,358 | 39.9 | 8,186 | 9.2% | 9.8% |
| 2012 | 75,129 | 2,543,192 | 33,851 | 39.5 | 8,141 | 9.0% | 8.1% |
| 2013 | 75,416 | 2,908,538 | 38,567 | 40.5 | 8,081 | 8.8% | 8.5% |
| 2014 | 75,542 | 2,957,316 | 39,148 | 42.0 | 8,080 | 7.0% | 6.6% |
| 2015 | 75,528 | 3,048,403 | 40,361 | 42.6 | 8,053 | 6.4% | 5.7% |
| 2016 | 75,936 | 2,926,695 | 38,637 | 43.2 | 8,022 | 5.1% | 4.1% |
| 2017 | N/A | N/A | N/A | N/A | 7,739 | 4.6% | 3.6% |

Notes: (A) U.S. Department of Commerce Bureau of Economic Analysis for the previous calendar year.

(B) Source: Tennessee Dept. of Education - Anderson County Board of Education Average Daily Attendance

(C) U.S. Department of Labor - Bureau of Labor Statistics for June.

(D) The Authority was created in Fiscal Year 2008 on July 16, 2007.

(E) Demographic and economic information is for Anderson County, Tennessee. Specific information for the Authority is not available.

(F) N/A data not yet available.

ANDERSON COUNTY WATER AUTHORITY

PRINCIPAL EMPLOYERS

Current Fiscal Year and Eight Fiscal Years Ago

| Customer | 2017 | | | 2009 | | |
|---|-----------|------|--------------------------------|-----------|------|--------------------------------|
| | Employees | Rank | Percentage of County Workforce | Employees | Rank | Percentage of County Workforce |
| BWXT - Y12 | 4,800 | 1 | 14.16% | 4,500 | 1 | 12.84% |
| Anderson County Government | 1,550 | 2 | 4.57% | 1,542 | 2 | 3.91% |
| UCOR/Bechtel Jacobs Co., LLC | 1,383 | 3 | 4.08% | 1,306 | 4 | 3.25% |
| SL Tennessee | 1,200 | 4 | 3.54% | N/A | | |
| Covenant Health Systems (Methodist Medical Center) | 1,175 | 5 | 3.47% | 1,337 | 3 | 3.63% |
| Eagle Bend Manufacturing | 850 | 6 | 2.51% | 624 | 8 | 2.00% |
| Aisin Automotive Casting | 820 | 7 | 2.42% | N/A | | |
| Oak Ridge Associated Universities (ORAU) | 787 | 8 | 2.32% | 600 | 9 | 1.68% |
| Oak Ridge Schools | 650 | 9 | 1.92% | 674 | 7 | 1.84% |
| SAIC | 546 | 10 | 1.61% | 1,000 | 5 | 2.79% |
| Wackenhut-Oak Ridge Team | N/A | | N/A | 902 | 6 | 2.51% |
| Total | 13,761 | | 40.59% | 12,485 | | 34.45% |

Notes: (A) Source(s): Tennessee Department of Economic and Community Development and Tennessee Department of Labor and Workforce Development.

ANDERSON COUNTY WATER AUTHORITY

EMPLOYEES BY FUNCTION

Last Nine Fiscal Years

| | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> | <u>2013</u> | <u>2012</u> | <u>2011</u> | <u>2010</u> | <u>2009</u> |
|------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| WATER AND WASTEWATER | | | | | | | | | |
| Water System | 22.5 | 22.5 | 21.5 | 23 | 22 | 22 | 24 | 21 | 20 |
| Wastewater System | <u>1</u> | <u>1</u> | <u>2</u> | <u>1</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| | <u>23.5</u> | <u>23.5</u> | <u>23.5</u> | <u>24</u> | <u>22</u> | <u>22</u> | <u>24</u> | <u>21</u> | <u>20</u> |
| ADMINISTRATION | | | | | | | | | |
| Billing and Customer Service | 5 | 5 | 5.5 | 4 | 2 | 2 | 2 | 2 | 4.5 |
| Finance & Accounting | 2 | 2 | 2 | 2 | 2 | 2 | 2.5 | 2.5 | 2 |
| Administrative | <u>1</u> | <u>1</u> | <u>1</u> | <u>1</u> | <u>3</u> | <u>3</u> | <u>3</u> | <u>3</u> | <u>2</u> |
| | <u>8</u> | <u>8</u> | <u>8.5</u> | <u>7</u> | <u>7</u> | <u>7</u> | <u>7.5</u> | <u>7.5</u> | <u>8.5</u> |
| TOTAL EMPLOYEES | <u>31.5</u> | <u>31.5</u> | <u>32</u> | <u>31</u> | <u>29</u> | <u>29</u> | <u>31.5</u> | <u>28.5</u> | <u>28.5</u> |

Note: FY 2009 was the first year the Authority began significant operations on January 1, 2009.

Source: Payroll records of the Authority.

ANDERSON COUNTY WATER AUTHORITY

OPERATING AND CAPITAL INDICATORS

Last Nine Fiscal Years

| | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> | <u>2013</u> | <u>2012</u> | <u>2011</u> | <u>2010</u> | <u>2009</u> |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Area in Square Miles: | 220 | 220 | 220 | 220 | 220 | 220 | 220 | 220 | 220 |
| Water System: | | | | | | | | | |
| Miles of Water Mains | 632 | 630 | 630 | 630 | 625 | 612 | 426 | 422 | 420 |
| Number of: | | | | | | | | | |
| Water Service Connections | 9,591 | 9,464 | 9,399 | 9,283 | 9,227 | 9,126 | 9,132 | 9,136 | 8,990 |
| Wastewater Service Connections | 884 | 864 | 822 | 824 | 801 | 792 | 889 | 893 | 919 |
| Office Building | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 0 |
| Water Treatment Plants | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 |
| Wastewater Treatment Plants | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Reservoirs | 12 | 11 | 11 | 11 | 13 | 13 | 16 | 16 | 16 |
| Water Pumping Stations | 25 | 23 | 23 | 23 | 23 | 24 | 24 | 24 | 24 |
| Wastewater Pumping Stations | 23 | 19 | 19 | 19 | 19 | 19 | 19 | 19 | 19 |
| Fire Hydrants | 352 | 347 | 347 | 345 | 340 | 330 | 327 | 325 | 325 |
| Daily Average Water Treatment in Gallons (MGD) | 2.84 | 2.91 | 2.96 | 2.92 | 2.87 | 2.90 | 2.69 | 2.61 | 2.58 |
| Daily Average Water Purchases in Gallons (MGD) | 0.11 | 0.13 | 0.18 | 0.18 | 0.18 | 0.18 | 0.18 | 0.17 | 0.12 |
| Daily Average Water Sales and Consumption in Gallons (MGD) | 2.15 | 2.16 | 2.16 | 2.06 | 2.05 | 1.87 | 1.86 | 1.87 | 1.84 |
| Water Reservoir Storage Capacity (Millions of Gallons) | 6.10 | 6.00 | 6.00 | 6.00 | 6.00 | 6.00 | 4.38 | 4.38 | 4.38 |

Notes: (A) MGD = Million of gallons per day

(B) FY 2009 was the first year that the Authority began significant operations on January 1, 2009.

Source: Various operational reports and records of the Authority.

COMPLIANCE SECTION

CERTIFIED PUBLIC ACCOUNTANTS

Joe Savage
Marie I. Niekerk
Josh Stone
Earl O. Wright - 1988 - 2002

Stephen J. Parsons - Retired
Meredith Haubrich
Rebecca Hutsell
William R. Scandlyn - 1988 - 1999

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors
Anderson County Water Authority
Clinton, Tennessee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Anderson County Water Authority ("the Authority"), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Anderson County Water Authority's basic financial statements and have issued our report thereon dated November 8, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Anderson County Water Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Anderson County Water Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Anderson County Water Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Anderson County Water Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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Telephone (931) 202-1220
Fax (888) 430-9848

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Parsons & Wright

Parsons & Wright
Certified Public Accountants
Kingston, Tennessee

November 8, 2017

ANDERSON COUNTY WATER AUTHORITY
SCHEDULE OF DISPOSITION OF PRIOR YEAR FINDINGS
June 30, 2017

There were no prior findings reported.

